DO NOT STAPLE THIS FORM

MSRB FORM G-36 (OS) - FOR OFFICIAL STATEMENTS

129798

SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. [X] A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 09/26/2001 (b) DATE SENT TO MSRB: 09/26/2001

2. [ ] AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: ______ (b) DATE SENT TO MSRB: ______

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: [X]

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): [ ]

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.

If more space is needed to list additional issues, please include on a separate sheet and check here: [ ]

NAME OF ISSUER COUNTY OF SAN DIEGO CERTIFICATES OF PARTICIPATION 2001 MTS TOWER REFUNDING STATE: CA

DESCRIPTION OF ISSUE COUNTY OF SAN DIEGO CERTIFICATES OF PARTICIPATION 2001 MTS TOWER REFUNDING DATED DATE: 09/01/2001

NAME OF ISSUER ______ STATE:

DESCRIPTION OF ISSUE ______ DATED DATE:

NAME OF ISSUER ______ STATE:

DESCRIPTION OF ISSUE ______ DATED DATE:

SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 11/01/2019

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 09/21/2001

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 09/27/2001

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: [ ]

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER Morgan Stanley SEC REG. NUMBER: 8-15869

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING $ 36,960,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): $

D. CHECK ALL THAT APPLY

1. [ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2. [ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

3. [ ] This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
11/01/2002	797391VD8	11/01/2003	797391VE6	11/01/2004	797391VF3
11/01/2005	797391VG1	11/01/2006	797391VH9	11/01/2007	797391VJ5
11/01/2008	797391VK2	11/01/2009	797391VL0	11/01/2010	797391VM8
11/01/2011	797391VN6	11/01/2012	797391VP1	11/01/2013	797391VQ9
11/01/2014	797391VR7	11/01/2015	797391VS5	11/01/2016	797391VT3
11/01/2017	797391VU0	11/01/2018	797391VV8	11/01/2019	797391VW6

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: [ ]

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: __________

State the reason why such securities have not been assigned a "CUSIP-9": __________

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: [ ]

State the reason why such securities are ineligible for CUSIP number assignment: __________

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

OCT 01 2001

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to MSRB, MSIL System, 1900 Duke Street, Suite 600, Alexandria, Virginia

NEW ISSUE—BOOK-ENTRY-ONLY

RATINGS: Moody's: "Aaa"
Standard & Poor's: "AAA"
Fitch: "AAA"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment attributed to and constituting interest paid by the County under the Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment attributable to and constituting such interest. See "TAX MATTERS" herein.

$36,960,000
COUNTY OF SAN DIEGO

Certificates of Participation
(2001 MTS Tower Refunding)
Evidencing Proportionate Undivided Interests of the Owners Thereof in Base Rental Payments to be Made by the County of San Diego to San Diego Regional Building Authority

Dated: September 1, 2001 **Due: November 1, 2019**

The County of San Diego Certificates of Participation (2001 MTS Tower Refunding) (the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2001, by and among State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"), the County of San Diego (the "County") and San Diego Regional Building Authority, a California joint exercise of powers authority (the "Authority"). The Certificates evidence proportionate undivided interests in the Base Rental Payments to be made by the County pursuant to that certain Lease, dated as of September 1, 2001 (the "Lease") to be entered into by the County and the Authority, pursuant to which the County will lease from the Authority the real property, buildings and improvements located thereon constituting the MTS Tower Complex, as more particularly described herein (the "Property"). See "Security and Sources of Payment for the Certificates– Base Rental Payments." The proceeds of the Certificates will be applied to (i) refund $39,035,000 outstanding aggregate principal amount of Certificates of Participation (1991 MTS Tower Refunding Project) (the "Refunded Certificates") originally issued in the aggregate principal amount of $46,965,000, (ii) to finance a Certificate Reserve Fund (as defined herein), and (iii) to pay certain costs of issuance incurred in connection with the Certificates. See "Plan of Refunding" herein.

Interest represented by the Certificates is payable on May 1 and November 1 of each year, commencing on May 1, 2002. The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee from Base Rental Payments (as defined herein). Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D—"Book-Entry System" herein.

Payment of principal of and interest with respect to the Certificates when due will be insured by a Financial Guaranty Insurance Policy to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation. See "The Insurer—Financial Guaranty Insurance Policy" herein and Appendix F—"Specimen of Financial Guaranty Insurance Policy" attached hereto.

Ambac

The Certificates are subject to optional prepayment and extraordinary prepayment, as described herein. See "The Certificates—Prepayment."

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

MATURITY SCHEDULE
BASE CUSIP No.: 797391

Maturity (November 1)	Amount	Interest Rate	Yield	CUSIP	Maturity (November 1)	Amount	Interest Rate	Yield	CUSIP
2002	$1,485,000	2.150%	2.15%	VD8	2011	$1,945,000	5.000%	3.90%	VN6
2003	1,515,000	2.400	2.40	VE6	2012	2,115,000	5.250	4.05	VP1
2004	1,580,000	2.700	2.70	VF3	2013	2,185,000	5.250	4.21	VQ9
2005	1,535,000	2.900	2.90	VG1	2014	2,350,000	5.250	4.34	VR7
2006	1,595,000	4.000	3.15	VH9	2015	2,410,000	5.250	4.44	VS5
2007	1,660,000	4.000	3.30	VJ5	2016	2,570,000	5.250	4.54	VT3
2008	1,725,000	4.000	3.50	VK2	2017	2,715,000	4.600	4.63	VU0
2009	1,790,000	5.000	3.65	VL0	2018	2,845,000	4.625	4.70	VV8
2010	1,960,000	5.000	3.80	VM8	2019	2,980,000	5.250	4.77	VW6

(plus accrued interest)

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Authority by the County Counsel. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about September 27, 2001.

MORGAN STANLEY

FIRST ALBANY CORPORATION

Dated: September 20, 2001

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Authority, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been provided by the County and other sources that are believed by the County to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Authority since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Authority.

In connection with the offering of the Certificates, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS

Bill Horn, Chairman	Fifth District
Ron Roberts, Vice-Chairman	Fourth District
Greg Cox	First District
Dianne Jacob	Second District
Pam Slater	Third District

SAN DIEGO REGIONAL BUILDING AUTHORITY
BOARD OF COMMISSIONERS

Ron Roberts, Chairman
Greg Cox, Commissioner
Leon Williams, Commissioner

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Bart J. Hartman, *Treasurer - Tax Collector*
William J. Kelly, *Chief Financial Officer*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

Special Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Financial Advisor

Sutro & Co. Incorporated
Los Angeles, California

Trustee

State Street Bank and Trust Company of California, N. A.
Los Angeles, California

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County of San Diego to San Diego Regional Building Authority

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Lease. See Appendix C – "Summary of Principal Legal Documents – Definitions."

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (2001 MTS Tower Refunding) in an aggregate principal amount of $36,960,000 (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2001, by and among State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"), the County of San Diego (the "County") and San Diego Regional Building Authority (the "Authority") to (i) refund $39,035,000 outstanding aggregate principal amount of Certificates of Participation (1991 MTS Tower Refunding Project) (the "Refunded Certificates") originally issued in the aggregate principal amount of $46,965,000, (ii) to finance a Certificate Reserve Fund (as defined herein), and (iii) to pay certain costs of issuance incurred in connection with the Certificates. The Authority is a joint exercise of powers authority between the County and the San Diego Metropolitan Transit Development Board ("MTDB"). See "Plan of Refunding" herein.

The Certificates evidence proportionate undivided interests in the Base Rental Payments to be made by the County pursuant to that certain Lease Agreement, dated as of September 1, 2001 (the "Lease") to be entered into by the County and the Authority, pursuant to which the County will lease from the Authority the real property, buildings and improvements located thereon constituting the MTS Tower Complex, as more particularly described herein (the "Property"). See "Security and Sources of Payment for the Certificates – Base Rental Payments."

Security and Source of Payment for the Certificates

Under the Lease, in consideration for the use and possession of the Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Lease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Lease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Lease.

The County is required to make Base Rental Payments in accordance with the provisions of the Lease. However, the County is not obligated to levy or pledge any form of taxation for the payment of Base Rental Payments for the Property, nor has the County levied or pledged any such tax. Pursuant to an Assignment Agreement, dated as of September 1, 2001 (the "Assignment Agreement"), by and between the Trustee and the Authority, the Authority will assign to the Trustee, for the benefit of the Owners of the Certificates (i) all of its right, title and interest in and to the Ground Lease dated as of November 1, 1987, between MTDB and the Authority, as amended and restated by the Amended and Restated Ground Lease dated as of September 1, 2001, by and between MTDB and the Authority (collectively, the "Ground Lease"), and (ii) all of its right, title and interest in and to the Lease including the right to receive Base Rental Payments under the Lease. Pursuant to the Trust Agreement, the Trustee has agreed to distribute Base Rental Payments received from the County as principal and interest represented by the Certificates. See Appendix C – "Summary of Principal Legal Documents – The Lease" and "– Trust Agreement."

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund representing earned Base Rental Payments, moneys in the Certificate Reserve Fund and proceeds, if any, of rental interruption insurance are available to pay Base Rental Payments. See "Security and Sources of Payment for the Certificates – Base Rental Payments" and "– Abatement."

The Certificates

The Certificates will be executed and delivered in the form of fully registered Certificates in principal amounts of $5,000 each or any integral multiple thereof. The Certificates will be dated September 1, 2001 and mature on November 1 in the years set forth on the cover page hereof. Interest represented by the Certificates is payable on May 1 and November 1 of each year, commencing on May 1, 2002.

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "The Certificates – General" and Appendix D – "Book-Entry System."

Financial Guaranty Insurance Policy

Payment of principal and interest with respect to the Certificates when due will be insured by a Financial Guaranty Insurance Policy to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation. See "The Insurer – Financial Guaranty Insurance Policy" herein and Appendix F – "Specimen of Financial Guaranty Insurance Policy" attached hereto.

Tax Matters

For a summary of the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, see "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made. The County has never failed to comply with this covenant.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Miscellaneous

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions. It is anticipated that the Certificates in definitive form will be available for delivery to DTC on or about September 27, 2001.

The description herein of the Trust Agreement, the Lease, the Escrow Agreement and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents." Copies of the documents are on file and available for inspection at the Principal Corporate Trust Office of the Trustee at State Street Bank and Trust Company of California, N.A., Attention: Corporate Trust Department.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE PROPERTY

The Property is a 10-story office complex containing approximately 180,000 square feet that includes a light rail trolley station and a parking garage with approximately 1,000 spaces and a free-standing clock tower approximately 225 feet tall. In addition, the Property has 7,500 square feet of incidental retail and commercial spaces. The Property is located in an area bounded on the north by Imperial Avenue, on the west by 11th Street, on the east by 13th Street and on the south by the railroad right-of-way, all located within the City of San Diego, California. The Property site consists of two parcels, one of which is owned by MTDB and one of which is owned by the Authority. The portion of the Property owned by MTDB is leased to the Authority pursuant to the Ground Lease. The Authority leases both parcels to the County pursuant to the Lease. MTDB currently subleases from the County approximately 40,000 square feet of the office space and approximately a 10,000 square foot trolley station under the office building. The County and MTDB intend to enter into a new sublease dated as of September 1. 2001 (the "MTDB Sublease"), for a term ending on November 1, 2086, unless extended or sooner terminated in accordance therewith under which the County will sublease such space to MTDB.

PLAN OF REFUNDING

In October 1991, the County caused the execution and delivery of its Certificates of Participation (1991 MTS Tower Refunding Project) in the original aggregate principal amount of $46,965,000, of which $39,035,000 is presently outstanding (the "Refunded Certificates"). The Refunded Certificates were executed and delivered to defease previously outstanding Authority Lease Revenue Bonds (MTS Tower Project), Series 1989A in the original aggregate principal amount of $43,600,000, which were issued to finance the acquisition, construction and installation costs of certain improvements to the Property. The Refunded Certificates are comprised of $3,635,000 Current Interest Certificates ("Current Interest Certificates"), of $17,700,000 Floating Auction Tax Exempt Certificates ("FLOATs") and $17,700,000 Residual Interest Tax-Exempt Certificates ("RITEs").

Upon delivery of the Certificates, a portion of the proceeds, together with certain other amounts, will be deposited in an escrow account (the "Escrow Account") established under the Escrow Agreement, dated as of September 1, 2001 (the "Escrow Agreement"), by and between the County and State Street Bank and Trust Company of California, N.A., as escrow agent for the Refunded Certificates (the "Escrow Agent"). Moneys in the Escrow Account will be invested in direct general obligations of, or obligations on which the payment of the principal of and interest are unconditionally guaranteed by the United States of America, the interest on and principal of which will be sufficient to pay (i) on November 1, 2001 the principal amount with respect to the Current Interest Certificates maturing on November 1, 2001 and accrued interest thereon and the prepayment price of 101% of the principal amount with respect to the Current Interest Certificates maturing after November 1, 2001 and accrued interest thereon, and (ii) on November 9, 2001, (x) the prepayment price of 100% of the principal amount of the FLOATs and accrued interest thereon without premium, and (y) the prepayment price of 104% of the principal amount of the RITES and accrued interest thereon, all as set forth in the following table:

$3,635,000 Current Interest Certificates

Maturity (November 1)	Principal Amount	Interest Rate
2001	$1,145,000	6.00%
2002	1,210,000	6.00
2003	1,280,000	6.10

$17,700,000 Floating Auction Tax-Exempt Certificates (FLOATs) due November 18, 2019
$17,700,000 Residual Interest Tax-Exempt Certificates (RITEs) due November 18, 2019

See "Verification of Arithmetical and Mathematical Computations" herein.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The Certificate proceeds, exclusive of accrued interest, and amounts held in connection therewith, are expected to be applied approximately as set forth below:

SOURCES:	
Principal Amount of Certificates	$36,960,000.00
Net Premium	1,654,666.00
Insurance Proceeds and Condemnation Awards Fund of Prior Trust Agreement[1]	5,601,482.96
1991 MTS Reserve Fund	3,683,300.00
County Contribution	1,136,105.42
MTDB Contribution	433,317.73
Miscellaneous Amounts under Prior Trust Agreement	154,250.61
TOTAL SOURCES	$49,623,122.72
USES:	
Deposit to Escrow Account for Refunded Certificates	$40,080,552.61
Deposit to Repair Fund[1]	5,601,482.96
Certificate Reserve Fund	3,153,291.26
Cost of Issuance Fund[2]	787,795.89
TOTAL USES	$49,623,122.72

(1) Amounts held under the Prior Trust Agreement to be transferred to the Repair Fund established under the Trust Agreement to repair the facade of the Property.

(2) Includes underwriter's discount, rating agencies fees, Financial Guaranty Insurance premium, legal fees and printing costs.

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference.

General

The Certificates will be executed and delivered in the form of fully registered Certificates in principal amounts of $5,000 each or any integral multiple thereof. The Certificates will be dated September 1, 2001 and mature on November 1 in the years set forth on the cover page hereof. Interest represented by the Certificates is payable on May 1 and November 1 of each year, commencing on May 1, 2002.

The Certificates will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. See Appendix D – "Book-Entry System."

Prepayment

Optional Prepayment. The Certificates maturing on or before November 1, 2010 are not subject to optional prepayment prior to maturity. The Certificates maturing on or after November 1, 2011 are subject to prepayment prior to maturity on any date on or after November 1, 2010, as a whole, or in part, from prepaid Base Rental Payments, at a prepayment price equal to the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

Extraordinary Prepayment. The Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Property or portions thereof, at a prepayment price equal to the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates are to be prepaid on any one date, other than from any Mandatory Sinking Account Payments which shall be selected in accordance with the Trust Agreement or any Additional Certificates which shall be governed by the terms of the applicable Supplemental Trust Agreement, the County shall select the maturity of the Certificates or portions thereof to be prepaid, which may include portions of Term Certificates representing prepaid Base Rental Payments due immediately prior to the Mandatory Sinking Account Payments relating to such Term Certificates, and shall provide written notice to the Trustee at least 60 days prior to the prepayment date; provided, however, that if the remaining Base Rental Payments under the Lease will not be reasonably level after such prepayment, the County shall deliver to the Trustee an Opinion of Counsel that the Lease will continue to be a valid and binding obligation of the County after such prepayment. Such decision of the County shall be final and binding upon the Authority, the Trustee and the Owners. Subject to the County's direction, the Trustee shall select specific Certificates within a maturity for prepayment by lot. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

Notice of Prepayment. When prepayment is authorized pursuant to the Trust Agreement, the Trustee shall give notice, at the expense of the County, of the prepayment of the Certificates. The notice of prepayment shall specify: (a) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Certificates to be prepaid, (f) the numbers of the Certificates to be prepaid in whole or in part (if less than all of the Certificates of a maturity are to be prepaid) and, in the case of any Certificates to be prepaid in part only, the amount of such Certificates to be prepaid, and (g) the stated Principal Payment Date of each Certificate to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to the prepayment date thereon, and that from and after such date interest represented thereby shall cease to accrue and be payable.

BOOK-ENTRY SYSTEM

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D – "Book-Entry System."

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Base Rental Payments

General. The Certificates represent the aggregate principal components of the Base Rental Payments, each evidencing and representing a proportionate, undivided interest in the Base Rental Payments to be made by the County under the Lease. The County is required under the Lease to make Base Rental Payments from legally available funds. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Rental with respect to the Property in its operating budget for each fiscal year commencing after the date of the Lease and to make the necessary appropriations for such Base Rental Payments and Additional Rental (except to the extent such payments are abated in accordance with the Lease). In addition, to the extent permitted by law, the County covenants in the Lease to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget. Base Rental Payments are scheduled to be paid as set forth below. See "– Base Rental Payment Schedule." THE COUNTY HAS NOT PLEDGED THE FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The Trustee will not have any obligation or liability to the Owners to make payment of principal, premium, if any, or interest represented by the Certificates except from Base Rental Payments by the County under the Lease or other amounts available to it under the Trust Agreement for such purposes; and the amounts of such payments shall be limited to amounts designated as principal and interest represented by the Certificates. Additional Rental payable by the County under the Lease includes amounts sufficient to pay certain taxes and assessments and insurance premiums, the County Proportionate Share of Common Costs (as defined in the Lease), and certain administrative costs.

Subject to the provisions of the Lease relating to abatement more particularly described below, the Lease provides that the obligation of the County to make Base Rental Payments and Additional Rental shall be absolute and unconditional and such Base Rental Payments and Additional Rental will not be subject to set-off or counterclaim. The Lease provides that the covenants of the County thereunder are deemed to be duties imposed by law, and it further provides that it will be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements of the County contained in the Lease. The Lease provides that the County shall pay Base Rental Payments and Additional Rental from legally available funds.

There is no remedy of acceleration of Base Rental Payments over the term of the Lease.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE – RENTAL PAYMENTS – RENTAL ABATEMENT."

Base Rental Payments Schedule. The County shall pay to the Trustee, as assignee of the Authority, on the date the Certificates are executed and delivered in the case of Base Rental Payments payable prior to July 1, 2002, and thereafter annually on each July 5 (or the next Business Day if July 5 does not fall on a Business Day), commencing on July 5, 2002, for so long as any Certificates shall remain outstanding, Base Rental Payments in the amounts set forth in Lease, a portion of which Base Rental Payments shall constitute interest. Pursuant to the Trust Agreement and the Lease, the Base Rental Payments will be deposited in the Base Rental Payment Fund and applied to principal and interest payments as they become due. A table of annual Base Rental Payments with respect to the Certificates is set forth below:

Fiscal Year Ending June 30	Annual Base Rental Payments
2002	$1,108,605.83
2003	3,131,945.01
2004	3,127,801.26
2005	3,153,291.26
2006	3,064,703.76
2007	3,070,546.26
2008	3,070,446.26
2009	3,067,746.26
2010	3,053,496.26
2011	3,129,746.26
2012	3,017,121.26
2013	3,082,977.51
2014	3,040,102.51
2015	3,086,058.76
2016	3,021,108.76
2017	3,050,383.76
2018	3,065,476.26
2019	3,067,240.63
2020	3,058,225.00

* On and after July 5, 2002, Base Rental Payments are paid in advance on each July 5.

The County may at its sole discretion enter into a Debt Service Forward Sale Agreement or similar arrangement with a financial institution pursuant to which Base Rental Payments will be invested in direct obligations of, or obligations unconditionally guaranteed by, the United States of America or obligations secured or guaranteed by certain instrumentalities or agencies of the United States of America and will be invested so as the requisite components of each Base Rental Payment shall be available on each scheduled Interest Payment Date and Principal Payment Date as required by the Trust Agreement.

In accordance with the Lease, the County is obligated to make Base Rental Payments scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates, and certain other payments designated as Additional Rental, as set forth in the Lease. The County is required to make Base Rental Payments as directed in the Lease. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Lease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Lease. However, the County is not obligated to levy or pledge any form of taxation for the payment of rental for the Property, nor has the County levied or pledged any such tax.

Certificate Reserve Fund

The Certificate Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement.

The Certificate Reserve Fund will be funded from proceeds of the sale of the Certificates in the amount of the Certificate Reserve Fund Requirement. As set forth in the Trust Agreement, the "Certificate Reserve Fund Requirement" shall be, as of any date of calculation, an amount initially equal to $3,153,291.26 but in no event less than the lesser of (i) maximum prospective annual Base Rental Payments with respect to

Outstanding Certificates and Additional Certificates to be made by the County under the Lease in any Lease Year or (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate. The Certificate Reserve Fund Requirement may be satisfied by crediting to the account established within the Certificate Reserve Fund a Reserve Facility. Amounts in the Certificate Reserve Fund are to be used only to pay the interest and principal due with respect to the Certificates to the extent that amounts in the Interest Fund and the Principal Fund are insufficient therefor or to make the final payment on the Certificates; provided that amounts in the Certificate Reserve Fund may be invested as permitted under the Trust Agreement. Base Rental Payments made by the County and not needed to pay past due interest and principal shall be deposited in the Certificate Reserve Fund to the extent the amount on deposit there in is less than the Certificate Reserve Fund Requirement. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement."

The Certificate Reserve Fund Requirement may at the option of the County be satisfied by crediting to the Certificate Reserve Fund, a letter of credit, line of credit, surety bond, bond insurance policy or similar facility or any combination thereof, which in the aggregate make funds available in the Certificate Reserve Fund in an amount equal to the Certificate Reserve Fund Requirement. See Appendix C - "Summary of Principal Legal Documents – Trust Agreement."

The Ground Lease and Non-Disturbance Agreement

The Property site consists of two parcels, one of which is owned by MTDB and one of which is owned by the Authority. The portion of the Property owned by MTDB is leased to the Authority pursuant to the Ground Lease. The Authority leases both parcels to the County pursuant to the Lease. MTDB subleases from the County approximately 40,000 square feet of the office space and approximately a 10,000 square foot trolley station under the office building pursuant to the MTDB Sublease for a term ending on November 1, 2086, unless extended or sooner terminated as provided therein. MTDB will enter into a Non-Disturbance Agreement and Agreement re: Ground Lease (MTS Tower Refunding), dated as of September 1, 2001 (the "Non-Disturbance Agreement") with the County which will provide, among other things, that in the event the Trustee obtains possession of the land and facilities covered by the Ground Lease and the Lease through actions taken under the Lease, MTDB will recognize the Trustee and one claiming through the Trustee as the rightful occupier of the Facilities under the Lease and will not withhold consent to such a transfer, provided that the Trustee or new occupying lessee assumes obligations under the Lease and there does not occur thereafter an event of default under the Lease or event which with the passing of time or giving of notice or both would constitute such an event of default. See Appendix C – "Summary of Principal Legal Documents – Non-Disturbance Agreement."

Insurance

The Lease provides that the County will secure and maintain or cause to be secured and maintained throughout the term of the Lease for the Property insurance or self-insurance or self-funding against the risks and in the amounts set forth in the Lease. Such insurance includes "all risk" insurance against loss or damage to the Property, including flood, but excluding earthquake. This insurance may include a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such "all risk" coverage as a joint insured with one or more other public agencies located within or outside of the County. The County shall also obtain rental interruption insurance in an amount sufficient at all times to pay the total rent due under the Lease for a period adequate to cover the period of repair or replacement, but in no event shall such policy be in an amount less than 2 years' actual Base Rental Payments for the Property. The Lease provides that the amount of required coverage may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County has received such written advice from its insurance broker. For additional information regarding the County's risk management programs, see "County Financial Information – Risk Management," "– Insurance Coverage Respecting Lease Obligations and Long-Term Loans," and see Appendix C – "Summary of Principal Legal Documents – The Lease – Maintenance; Taxes; Insurance and Other Charges – Insurance."

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Certificate Reserve Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Lease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or Lease any or all of the Property or other rights hereunder, as permitted by the Lease, for purposes of determining the fair rental value available to pay Base Rental Payments and Additional Rental, fair rental value of the Property shall first be allocated to the Lease as provided in the Lease. Any abatement of rental payments shall not be considered an Event of Default under the Lease. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Property.

Substitution

The County may amend the Lease to substitute real property and/or improvements (the "Substituted Property") for existing Property or to remove real property (including undivided interests therein) and/or improvements from the definition of Property upon compliance with all of the conditions set forth in the Lease. After a substitution or removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold created under the Lease. See Appendix C – "Summary of Principal Legal Documents – The Lease – Property – Substitution or Removal of Property."

Additional Certificates

In addition to the Certificates to be executed and delivered under the Trust Agreement, the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; *provided* that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Lease providing for an increase in the Base Rental Payments to be made thereunder subject to the limitations set forth therein. See Appendix C – "Summary of Principal Legal Documents - Trust Agreement - Additional Certificates."

THE INSURER

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix F for a specimen of the Financial Guaranty Insurance Policy attached hereto.

Payment Pursuant to The Financial Guaranty Insurance Policy

Ambac Assurance (the "Insurer") has made a commitment to issue a Financial Guaranty Insurance Policy (the "Financial Guaranty Insurance Policy") relating to the Certificates effective as of the date of delivery of the Certificates. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Financial Guaranty Insurance Policy). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes due for Payment or within one business day following the date on which the Insurer shall have received notice of Nonpayment from the Trustee. The Financial Guaranty Insurance Policy will extend for the term of the Certificates and, once issued, cannot be canceled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, the Insurer will remain obligated to pay principal of and interest with respect to outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of the Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $4,830,000,000 (unaudited) and statutory capital of approximately $2,870,000,000 (unaudited) as of June 30, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Certificates. **No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee.**

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "The Insurer."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;

2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;

3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;

4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;

5) The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001; and

6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

THE COUNTY

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut. The County's Fiscal Year 2000-01 budget is approximately $2.5 billion.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: regional services such as courts, probation, medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement by contract and libraries by city's request to incorporated cities; and infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

COUNTY FINANCIAL INFORMATION

The following is a description of the County's budget process, current budget, historical budget information, changes in fund balance, balance sheets, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

Ad Valorem Property Taxation

The following tables describe the assessed valuation of property within the County subject to taxation for fiscal year 1991-92 through fiscal year 2000-01, and the tax collections in such years:

COUNTY OF SAN DIEGO
ASSESSED VALUATION OF PROPERTY
SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1991-92 through 2000-01
(in Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[1]	Net Assessed Valuation for Tax Purposes[2]
1991-92	$54,203,463	$ 80,619,713	$ 6,833,127	$141,656,303	$2,605,200	$139,051,103
1992-93	56,942,666	83,395,166	7,050,615	147,388,447	3,011,676	144,376,771
1993-94	57,882,778	84,631,884	7,028,170	149,542,832	3,521,396	146,021,436
1994-95	58,065,632	85,628,280	7,175,750	150,869,662	3,683,231	147,186,431
1995-96	58,469,323	86,585,240	7,536,344	152,590,907	3,826,612	148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,214	3,799,409	149,111,805
1997-98	59,965,573	87,226,802	10,222,561	157,414,936	4,512,558	152,902,378
1998-99	63,633,576	94,172,901	10,557,494	168,363,971	4,655,382	163,708,589
1999-00	70,120,054	105,048,079	10,221,397	185,389,530	4,840,800	180,548,730
2000-01	76,745,341	112,696,090	11,598,967	201,040,398	5,322,920	195,717,478

Source: County of San Diego Auditor and Controller.
(1) Exemption figures include veterans, church, welfare, religious, college and cemetery exemptions.
(2) Net Assessed Valuation for Tax Purposes figures include local secured, unsecured, state unitary and redevelopment valuation.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2000-01.

COUNTY OF SAN DIEGO
TEN LARGEST TAXPAYERS
Fiscal Year 2000-01

Property Owners	Business Area	Approximate Tax
San Diego Gas & Electric Company	Gas & Electric Utility	$21,951,721
Southern California Edison Co.	Electric Utility	18,668,147
Pacific Bell	Telephone Company	14,515,586
Qualcomm Inc.	Telecommunications	5,667,732
Equitable Life Assurance Society	Real Estate	4,144,430
Cabrillo Power	Electric Utility	3,582,098
Kilroy Realty LP	Real Estate	3,191,612
Prebys Conrad Trust	Real Estate	2,959,778
Spieker Properties	Real Estate	2,946,114
L-O Coronado Holding II, Inc.	Real Estate	2,921,603

Source: County of San Diego Auditor and Controller.

See "Risk Factors - Recent Developments Concerning Electricity" herein for a discussion of SDG&E and Edison's percentage of property tax payments with respect to the County's total General Fund property tax revenues.

Secured Tax Rolls Statistics

The following table sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last seven fiscal years, including an estimate for the fiscal year ending on June 30, 2001. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each fiscal year shown, and the percentage of the taxes levied for each year that were uncollected as of the fiscal year end.

COUNTY OF SAN DIEGO
SECURED TAX ROLL STATISTICS
Fiscal Years 1994-95 through 2000-01

Fiscal Year	Total Bills	Total Assessed Value[1]	Total Tax Amount[3]	Delinquent Tax Bills	Delinquent Tax Amount[3]	Delinquent Tax Amount as Percent of Tax Amount
1994-95	802,687	$144,207,931,163	$1,608,693,370	31,450	$56,947,574	3.54%
1995-96	805,698	145,681,809,785	1,623,328,413	30,053	46,680,249	2.88
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.90
1998-99	831,497	160,102,387,349	1,791,871,717	33,484	32,513,581	1.60
1999-00	842,959	176,113,891,329	1,962,926,237	36,820	39,059,369	1.70
2000-01[4]	857,777	191,194,756,333	2,126,737,380	38,000	41,000,000	1.80

Source: County of San Diego Auditor and Controller.
(1) Total Assessed Value figures include local secured and state unitary valuation.
(2) Amount excludes penalties.
(3) Delinquent Tax Amounts represent the dollar value of tax due in the year shown that had not been collected as of June 30 of that year.
(4) Total Bills, Total Assessed Value and Total Tax Amount figures are actual, remaining columns are estimated.

Liens and Redemption

Properties may be redeemed under an installment plan by paying current taxes plus 20% of the Redemption Amount five times over a period of five years. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. The Redemption Penalty continues to accrue interest at 1-1/2% per month on the unpaid balance of the Redemption Amount during the period of the installment plan. If taxes are unpaid for a period of five years or more after a parcel first becomes tax-defaulted (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property is subject to sale by the County Treasurer-Tax Collector.

Before the 1990-91 fiscal year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 1999-2000 fiscal year, the County collected $4,732,000 in such fees from cities, special districts and redevelopment agencies.

Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported in compliance with the requirements of Proposition 13. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Limitations on Tax Revenues."

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. Prior to 1992, assessment appeals filings in the County averaged less than 2,000 petitions annually. From 1992 to 1997, assessment appeals filings averaged 22,000 each year. With the turnaround in real estate values in 1998, appeals declined, but the County Assessor was still required to process over 3,000 appeals in fiscal year 2000-01. The County projects that the volume of current assessment appeals in fiscal year 2001-02 will be reduced by approximately 20% due to the strong and sustained real estate market.

As of January 1, 2001, the balance of pending applications was 1,827. This included current and prior years' filings. The County has four Assessment Appeals Boards which meet two days per week to process the applications. Waivers extending the statutory two-year processing deadline are obtained by the County for applications approaching this time limit.

Teeter Plan

Beginning fiscal year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "Series A Teeter Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Series B Teeter Notes," and together with the Series A Teeter Notes, the "Teeter Obligation Commercial Paper Notes"). The Series A Teeter Notes were initially delivered in a principal amount of $25,900,000, which principal amount was not in excess of remaining uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series A Teeter Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all fiscal years of the County ended on and prior to June 30, 1993 (the "Initial Debenture), with remaining amounts to pay costs in connection with the initial issuance of the Series A Teeter Notes. The Series B Teeter Notes were initially delivered in a principal amount of $42,400,000, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series B Teeter Notes were applied to refund the remaining Debentures attributable to the fiscal years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the initial issuance of the Series B Teeter Notes. There are no Series A Teeter Notes outstanding and the County will not issue any additional Series A Teeter Notes. Beginning in June 1996 and each June thereafter, including on June 19, 2001, the County has issued its Series B Teeter Notes to refund the demand obligations attributable to the fiscal year then ending and to pay costs in connection with the issuance of such Series B Teeter Notes. As of July 31, 2001, approximately $43,856,000 aggregate principal amount of the Series B Notes were outstanding.

The Teeter Obligation Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior to the County's Commercial Paper Notes and other General Fund obligations, including the obligation to make Base Rental payments.

The Series B Teeter Notes have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the fiscal years ended June 30, 1995 through June 30, 2001, and such other fiscal years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement dated June 22, 1998 by and between Landesbank Hessen-Thuringen Girozentrale (the "Bank") and the County (the "Reimbursement Agreement"), or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the fiscal years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to the Law and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund will be fully funded, in accordance with the County's election to be governed by the second alternative, at $7.128 million as of June 30, 2001. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Financial Statements

The following tables set forth the General Fund Combined Balance Sheets for fiscal years ending June 30, 1999 and June 30, 2000 and the General Fund Comparison of Revenues, Expenditures and Fund Balances for fiscal years 1996-97 through 1999-2000.

COUNTY OF SAN DIEGO
GENERAL FUND
COMBINED BALANCE SHEET
June 30, 1999 and June 30, 2000
(In Thousands)

	1999	2000
ASSETS		
Cash	$101,931	$ 70,527
Cash with Fiscal Agent [1]	180,081	136,477
Taxes Receivable	461	592
Accounts Receivable	165,558	196,910
Loans Receivable	689	689
Due from Other Funds [1][2]	90,084	153,651
Deposits with Others	–	–
Inventories-Materials and Supplies	7,694	7,687
TOTAL ASSETS	$546,498	$566,533
LIABILITIES AND EQUITIES		
Accounts Payable	$ 31,983	$ 32,298
Accrued Payroll	24,109	29,072
Amount Due for Tax and Revenue Anticipation Notes [1]	176,978	131,607
Due to Other Funds	14,106	19,046
Deferred Revenue	18,276	1,585
Fund Balance-Unavailable Encumbrances	56,092	91,888
Fund Balance-Unavailable Reserves	14,965	14,889
Fund Balance-Available	209,989	246,148
TOTAL LIABILITIES AND EQUITIES	$546,498	$566,533

Source: County of San Diego Auditor and Controller.

(1) Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts. In the prior year, pledged amounts were maintained in a separate pledge fund of the County.

(2) Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

COUNTY OF SAN DIEGO
GENERAL FUND
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
For Fiscal Years 1996-97 through 1999-2000
(in Thousands)

SOURCES OF FUNDS	1996-97	1997-98	1998-99	1999-2000
Fund Balances Reserved for Encumbrance	$ 59,492	$ 33,290	$ 47,916	$ 56,092
Unreserved Fund Balances	50,678	64,391	155,853	209,989
Taxes	270,881	284,970	302,044	314,570
Licenses, Permits and Franchises	20,958	21,034	22,087	22,233
Fines, Forfeitures and Penalties	21,100	21,849	19,267	27,406
Use of Money and Property	14,289	26,236	21,478	25,284
Aid from Other Gov't Agencies	1,387,493	1,344,981	1,289,314	1,451,260
Charges for Current Services	152,129	174,468	191,123	189,365
Other Revenue	24,778	15,966	27,485	25,052
Sale of Fixed Assets	–	–	–	900
Operating Transfers-in [1]	40,951	25,583	2,877	2,989
Issuance of Lease Purchases [2]	6,653	4,226	3,856	1,654
TOTAL SOURCES	$2,049,402	$2,016,994	$2,083,300	$2,326,794

USES OF FUNDS	1996-97	1997-98	1998-99	1999-2000
General	$ 184,397	$ 181,031	$ 182,528	$ 147,684
Public Protection	500,763	535,863	564,060	650,705
Public Ways and Facilities	1,181	1,458	1,964	1,742
Health and Sanitation	253,828	281,363	304,631	355,982
Public Assistance	865,278	759,389	645,312	681,751
Education	228	270	259	383
Recreation and Cultural Services	6,281	8,094	8,459	10,836
Capital Outlay	6,653	4,226	3,856	1,654
Debt Service	15,196	14,249	10,482	7,657
Operating Transfers-out [1]	114,547	85,367	86,384	124,641
TOTAL USES	$1,948,352	$1,871,310	$1,807,935	$1,983,035

Source: County of San Diego, Auditor and Controller.

[1] "Operating Transfers-in" consist primarily of funds transferred from the Accumulated Capital Outlay Fund, the Sheriff Asset Forfeiture Fund, Parkland Dedication Funds, and, beginning in Fiscal Year 1995-1996, the Trial Court Operations Special Revenue Fund. "Operating Transfers-out" consist primarily of transfers to the Accumulated Capital Outlay Fund.

[2] Excludes refundings.

General Fund Budget

The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeits and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditure and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other.

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than September 30 of each year. The Board of Supervisors may, by resolution, extend the date of adoption of a balanced budget to October 2. The Board of Supervisors is further required to set tax rates by September 1 in accordance with Article XIII A of the California Constitution. See "County Financial Information – Ad Valorem Property Taxation" herein.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. No increase in the aggregate appropriations can be made after the final budget has been adopted unless the County has received written certification of additional revenue from the sources of such revenue.

In order to ensure that the budget remains in balance throughout the fiscal year, quarterly reviews are made covering actual receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to reduce appropriations. Appropriation reductions would be achieved through a combination of hiring freezes, employee layoffs, and freezes on the purchase of equipment, services and supplies. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer is responsible for monitoring and reporting expenditures within budgeted appropriations.

1999-2000 Fiscal Year Financial Summary

The following information is based on the audited financial statements of the County for Fiscal Year 1999-00. For Fiscal Year 1999-2000, County revenues of $2,055.2 million exceeded expenditures of $1,858.4 million by $196.8 million. The "Other Uses" category totaled $119.1 million, for a net positive addition to the General Fund balance of $77.7 million. After equity deductions that total $5.8 million, total General Fund equity and other credits was $352.9 million at June 30, 2000, a net increase of $71.9 million over the Fiscal Year 1998-1999 ending General Fund balance of $281.1 million.

Significant elements of County operations in Fiscal Year 1999-2000, based on information from audited financial statements, include:

1. Increases in local real estate activity resulted in an additional $8.3 million in secured roll property taxes.

2. Increased vehicle license fee ("VLF") revenues. VLF revenues are distributed by the State to cities and counties and increased to $18.9 million in the 1999-00 Fiscal Year with one-time revenues of $2.1 million.

3. County cash flow management contributed an additional $8.0 million in interest on deposits and investments.

4. Public Protection and Health and Human Service agencies programs increased significantly due to the State's strong economy. Public Protection received over $18.4 million in Proposition 172 funding and Health and Human Service agencies received significant increases for CalWorks programs.

2000-01 Fiscal Year Financial Summary

Based on the unaudited financial statements, the County expects the Fiscal Year 2000-01 General Fund to end in a solid financial position, with positive operating fund balances of $218 million of which $146 million is group management reserves and operating fund balance, $72 million is County contingency and operational reserves. The County's management team is continuing its efforts to reduce costs and increase the County's year-end financial status. Significant positive and negative components of the County's projected fiscal status include:

1. The gross regional product increased approximately 6.4% for 2000;

2. The County unemployment rate of approximately 3.0% remained below both California and national levels;

3. The County completed a two-year program to eliminate a backlog of capital projects and deferred major maintenance;

4. VLF revenues distributed by the State to cities and counties showed a positive budget variance of $9.1 million or 6.0%.

5. Interest on deposits and investments increased $10.1 million or 50% over the budgeted amount.

6. A one-time discretionary item was designated for local agencies in the State's Fiscal Year 2000-01 budget. The County received its allocation of $6.6 million.

2001-02 Fiscal Year Operational Plan

The County's operational plan (the "Operational Plan") describes the financial plan for the next two fiscal years. The adopted Operational Plan for Fiscal Year 2001-02 is $2.516 million or 9.1% higher than the 2000-01 Operational Plan. Key assumptions and components of the proposed Operational Plan and comparisons with the 2000-01 Operational Plan include the following:

1. The gross regional product will experience growth of approximately 3.5%;

2. The County unemployment rate will increase to approximately 3.5%, below both California and national levels;

3. Total General Revenues (revenues not tied to a specific County program) will increase by 33.9 million and $29.7 million, to $573.9 million and $603.6 million in Fiscal Year 2001-02 and 2002-03, respectively;

4. Key General Revenue categories will increase in Fiscal Year 2001-02 by 6.3% ($15.6 million) for current secured property taxes and 6.0% ($15.9 million) for VLF revenues;

5. The County will increase the designation of $50 million to $53 million and appropriate an operational contingency reserve of $11.0 million. Both reserves will be set aside for any unforeseen catastrophic situations and for economic and operational uncertainties during Fiscal Year 2001-02.

The County adopted its Fiscal Year 2001-02 budget on July 31, 2001. The following table shows the County's General Fund budgets for Fiscal Years 2000-01 and 2001-02.

COUNTY OF SAN DIEGO
GENERAL FUND BUDGET
Fiscal Year 2000-01 and Fiscal Year 2001-02
(in Thousands)

	Final Budget 2000-01	Adopted Budget 2001-02
APPROPRIATIONS		
Public Safety	$ 707,705	$ 767,349
Health & Human Services	1,207,134	1,340,569
Land Use & Environment	93,203	84,717
Community Services	29,268	34,224
Finance and General Government and Other	257,230	272,298
Appropriation for Contingencies and Designation	11,000	16,600
Total Appropriations	$2,305,540	$2,515,757
REVENUES		
Current Property Taxes	$ 283,502	$ 299,105
Taxes other than Current Property Taxes	54,103	55,901
Licenses, Permits & Franchises	22,872	25,881
Fines & Forfeitures	27,599	26,824
Use of Money & Property	23,645	20,822
Aid from other Government Agencies	1,591,163	1,349,780
Charges for Current Service	184,749	188,346
Miscellaneous Revenues and Other Financing Sources*	45,522	457,607
Total Revenues	$2,233,155	$2,414,519
Estimated Fund Balance Available	72,385	91,492
Total Available Financing	$2,305,540	$2,515,754

Source: County of San Diego Auditor and Controller.

* "Miscellaneous Revenues and Other Financing Sources" for Fiscal Year 2001-02 incorporates the conversion of Realignment and Proposition 172 safety revenues from "Aid from other Government Agencies" to "Special Revenues."

Retirement Program

The employees retirement system of the County, established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all salaried employees. The plan is integrated with the federal Social Security System. For Fiscal Year 1999-2000, contributions to the retirement fund amounted to approximately $38 million by the County and $8 million by employee members. There were 16,669 active members, 8,703 retired members and 3,081 deferred members as of June 30, 2000.

The retirement system operates on a fiscal year basis and has an actuarial valuation prepared annually. At June 30, 1999, the date of the most recent actuarial valuation report, the actuarial accrued liability was approximately $3 billion and was 107% funded. The County is expected to receive a credit to its General Fund of approximately $41.8 million as a result of overfunding of its actuarial liability, such credit to be realized over five years commencing with fiscal year 1998-99; however, the availability of any such credit in future years may be impacted by the resolution of certain lawsuits described below. The County's method for computing actual contributions (level percentages) results in the employer contribution remaining approximately level from generation to generation as a percentage of the active employee payroll. The actuarially computed liabilities are based upon assumptions, which make provisions for future salary increases resulting from inflationary factors. The level of funding available for the retirement system is a function of a number of factors, including duration of employment, assumptions regarding costs of living and the performance of the stock market. Additional costs resulting from retiree health insurance and death benefits are paid on a current basis from surplus investment earnings in the fund.

In the case of Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association ("*Ventura*"), the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are to be included in the definition of final compensation within the meaning of the Retirement Law. Consequently, the County may be required to increase the amount of payments to the retirement fund for the benefit of its employees in the current fiscal year and future fiscal years. The California Supreme Court did not determine whether its holding in the Ventura case was to be applied retroactively. In a coordination proceeding which included all other counties and retirement systems' in California that have unsettled claims, including the County, the County of San Francisco Superior Court, held that *Ventura* is to be applied retroactively for a period beginning three years prior to the filing of a complaint to enforce *Ventura*. The potential unfunded liability of the County for the retroactive three-year period from October 1, 1994 to October 1, 1997 for the pay categories set forth in *Ventura* is not in excess of $5.4 million. In addition, the County estimates, that the potential financial impact of a prospective application of *Ventura* is approximately $5,000,000. The County does not expect that the retroactive or prospective application of *Ventura* to adversely affect the County's ability to pay principal and interest with respect to Certificates as and when due.

In 1998 there were three lawsuits filed against the San Diego County Employees Retirement Association. The cases are Stapel (the "Stapel case"), Scheidel (the "Scheidel case"), and Deputy Sheriffs' Association (the "DSA case"). The County of San Diego is the real party interest in each of these matters. In addition to requesting that *Ventura's* holding be retroactive, these cases request an expansion of the terms of final compensation under the Retirement Law. The Stapel case requests benefits be included in retirement calculations for members who retired after October 1, 1994. The Scheidel case requests inclusion of benefits for retired allowance calculations back to members' retirement dates before October 1, 1994. The DSA case requests inclusion of the additional benefits in retirement calculations after October 1, 1994 for retirees and active employees. These cases were consolidated into a coordinated proceeding in the County of San Francisco Superior Court (as described above). Liability for inclusion of other additional pay categories such as terminal vacation and sick leave, employer pick-up of employee contributions, cafeteria plan benefits, and insurance premiums of management could increase the amount to approximately $222 million for retirees. This figure does not reflect the potential unfunded liability if the retirement allowances were to be increased from retirement dates before October 1, 1994, interest that may be required to be paid on arrears benefits, or the deduction of possible retirees' arrears contributions. The Superior Court held a hearing on whether terminal vacation and sick leave, employer pick-up of contributions, cafeteria plan benefits and insurance premiums of management are to be included in final compensation. In July 2000, the court found that these categories need not be included. These findings may be appealed after a final judgment is entered. There would be additional increased potential unfunded liability for prospective application if terminal vacation and sick leave, employer pick-up of employee contributions, cafeteria plan benefits, and insurance premiums of management are required to be included in the final compensation of active employees. These additional categories could increase the County's potential unfunded liability to the retirement fund by approximately $277.5 million if terminal leave for only the final compensation period is included, or $677.5 million if all terminal leave were to be included. These figures do not reflect any deduction of active employees' arrears contributions that may be required.

Shown below are the County contributions for recent fiscal years and the level of contributions to the retirement system for fiscal year 2000-01.

COUNTY OF SAN DIEGO
EMPLOYER CONTRIBUTIONS TO RETIREMENT SYSTEM

1991-92	$ 92,482,653
1992-93	97,499,000
1993-94	89,267,603
1994-95	80,992,355
1995-96[1]	103,692,355
1996-97[1]	101,609,873
1997-98[1]	107,254,394
1998-99[1][2]	80,936,548
1999-00[1][2]	85,155,720
2000-01[1][2]	90,694,883

Source: County of San Diego Auditor and Controller.

(1) Includes principal and interest payments on the County's Taxable Pension Obligation Bonds.

(2) Reflects credit from County Retirement System.

Investments of the retirement system are recorded at fair value, net of brokerage commissions and other costs normally incurred in a sale, based upon closing sale proceeds reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") presently rates the County's retirement system's ability to meet its financial commitments "AA+." The approximate fair value of all investments held by the retirement system, as of June 30, 2000 was as follows:

Domestic equity	$1,913,300,000
International equity	1,102,800,000
Fixed Income	930,500,000
Real Estate	177,200,000
Other	148,600,000
Total Investments	$4,272,400,000

Risk Management

The County is required to obtain and maintain various types of insurance coverage in connection with project lease financings of the County. In accordance with Government Accounting Standards Board Statement 10, "*Accounting and Financial Reporting for Risk Financing and Relating Insurance Items,*" the County established an Internal Service Fund ("ISF") to report all of its uninsured risk management activities. An actuarial evaluation estimated that at June 30, 2001 claims of $84.1 million, including $12 million in public liability and $72.1 million in workers' compensation, were probable, resulting in a financial loss to the County. This estimate was based partially on the experience of similar governmental entities. As of the same date, the ISF had an ending balance of $39.5 million, resulting in an unfunded liability of approximately $44.6 million. The estimate of claims liabilities were recorded in the ISF. In addition, there is a potential gross liability of $27 to $29 million, which could result if unfavorable adjudication were rendered for pending legal actions.

The County is required to obtain and maintain public liability insurance and workers compensation insurance under various of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than $5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and of appropriation of such funds as may be necessary for self-funding and annual certification to the trustee with respect to such financing leases by the County's risk management officer or an independent insurance consultant of the sufficiency of coverage.

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or workers compensation. Accordingly, the County may not be in compliance with the immediately preceding insurance requirements. However, in 1996 the County adopted a ten-year phased funding program to fund the unfunded liability in its ISF. The County has deposited the following amounts into its ISF: $2 million in Fiscal Year 1996-1997, $4 million in fiscal year 1997-1998, $6 million in Fiscal Year 1998-99, $8 million in Fiscal Year 1999-2000 and $4 million in Fiscal Year 2000-01. The County intends to deposit $4 million in Fiscal Year 2001-02 and annually thereafter until the full unfunded liability in the ISF is eliminated.

County of San Diego Employees

The following table lists the number of County employees for the years 1992 through 2001:

TOTAL COUNTY EMPLOYEES

June 30	Total Employees
1992	17,022
1993	16,999
1994	17,256
1995	16,470
1996	17,626
1997	17,623
1998	17,775
1999	18,049
2000	18,866
2001	19,420

Source: County of San Diego Auditor and Controller.

County employees are represented by eight unions representing 22 bargaining units. The unions represent approximately 85% of the County's approximately 19,000 employees and include the San Diego County Deputy Sheriffs' Association; Social Services Union, Local 535, SEIU, AFL-CIO; Deputy District Attorneys Association; San Diego County Probation Officers' Association, SEIU, Local 2028, AFL-CIO and CLC; District Attorney Investigators Association; the Service Employees International Union, Local 2028, AFL-CIO and CLC; Deputy County Counsels Association and the Public Defender Attorneys' Association of San Diego County.

Labor agreements are in place for most unions, through June 30, 2006, covering approximately 16,000 employees. The Deputy Sheriffs' Association and the District Attorney Investigators Association have agreements through June 30, 2003. The remainder of all employees are unrepresented.

Short-Term Borrowing

The County issued its 2000-01 Tax and Revenue Anticipation Notes Series A, Series B and Series C (the "2001 TRANs") in three series on behalf of the County and certain school districts within the County (the "Participants") in an aggregate principal amount of $331,830,000. The Series C Notes in the aggregate principal amount of $175,000,000 represent notes issued by the County. The Series A Notes matured on June 29, 2001; the Series B Notes matured on August 3, 2001; and the Series C Notes are scheduled to mature on October 4, 2001. The 2001 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 2001. The 2001 TRANs are limited obligations of the County and each respective Participant but are payable only out of taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2000-01 and legally available for payment thereof (exclusive of any moneys required to be used to repay any Treasurer's Loan and exclusive of moneys pledged to the Teeter Obligation Commercial Paper Notes, as described herein) ("Unrestricted Revenues"). On June 8, 2001, the County sold its 2001-02 Tax and Revenue Anticipation Notes Series 2002 (the "2002 TRANs") on behalf of the County and certain school districts within the County in an aggregate principal amount of $225,155,000, of which $150,000,000 represent notes to be issued by the County. The 2002 TRANs were executed and delivered on July 3, 2001 and are scheduled to mature on June 28, 2002. The 2002 TRANs will be issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 2002. The 2002 TRANs are limited obligations of the County and each respective Participant but are payable only out of taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2001-02 and legally available for payment thereof (exclusive of any moneys required to be used to repay any Treasurer's Loan and exclusive of moneys pledged to the Teeter Obligation Commercial Paper Notes, as described herein) ("Unrestricted Revenues").

In addition, the County has authorized and issued its Series B Teeter Notes as taxable and tax-exempt obligations, secured by (i) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all fiscal years ended before June 30, 2001 and (ii) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. The amounts pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the 2001 TRANs and the amounts pledged to pay the 2001 TRANs will not be available to pay the Teeter Obligation Commercial Paper Notes. See "Security for and Sources of Payment of the Notes" and "County Financial Information – The Teeter Plan."

During the 1990's, the County has utilized Treasurer's Loans from time to time for various purposes, including the finance of County library programs and other County programs. The largest Treasurer's Loan in the last five years was in fiscal year 1996-97 for $25,000,000. The Board of Supervisors has authorized Treasurer's Loans during Fiscal Year 2000-01 and the County may utilize a Treasurer's Loan in Fiscal Year 2000-01 to fund cash flow deficits and its library programs. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first

County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

General Obligation Debt, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, the County Employees' Retirement Association, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. As of June 30, 2000, annual long-term lease payments of the County for Fiscal Year 1999-2000 amounted to approximately $109 million and there was approximately $1.1 billion aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments for the obligations will aggregate $120 million in Fiscal Year 2001-02. A summary of general fund long-term obligations payable from the general fund is presented as follows:

COUNTY OF SAN DIEGO
SUMMARY OF GENERAL LONG-TERM OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of July 2, 2001
(in Thousands)

CERTIFICATES OF PARTICIPATION San Diego County Capital Asset Leasing Corporation	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
1993 Series A, issued March 1993	3.00-5.75%	2013	$ 7,640	$ 5,735
1993 Vista Building, issued March 1993	3.25-5.10	2007	26,085	16,349
1993 Master Refunding, issued May 1993	2.50-5.625	2012	203,400	125,095
1996 Regional Communication System, issued May 1996	4.30-5.50	2018	52,230	45,315
1996 North & East County Courthouse, issued December 1996	4.30-5.60	2019	37,690	35,525
1997 Master Refunding, issued June 1997	4.00-4.80	2004	28,035	13,205
1997 Jail Refunding, issued July 1997	4.00-5.42	2025	80,675	75,620
1998 Downtown Courthouse Refunding, issued December 1998	4.00-4.50	2023	73,115	65,655
1999 East Mesa, issued September 1999	3.60-4.75	2009	15,010	13,770
2000 Information Technology System, issued May 2000	4.50-5.125	2010	51,620	51,620
2000 San Pasqual Academy Project, issued May 2000	Variable	2021	19,000	5,975
2001 Interim Justice Refunding, issued June 2001	Variable	2007	18,400	18,400
Total COPs			$ 612,900	$ 472,264
CAPITALIZED LEASES				
San Diego County Regional Building Authority Lease, MTS Tower Refunding issued October 1991*	4.60-6.363%	2019	$ 46,965	$ 39,035
THIRD PARTY FINANCING LEASES:				
Motorola Corporation Lease beginning December 1995	5.65%	2011	39,772	29,831
Other capitalized leases with various beginning dates from December 1991 to the present	4.54-8.00%	2000-07	14,099	7,659
Total Capitalized Leases			$ 100,836	$ 76,525
PENSION BONDS				
San Diego County Pension Obligation Bonds, Series A, Issued February 1994	4.70-6.60%	2007	$ 430,430	$ 317,345
Accumulated Unpaid Employee Leave Benefits				$ 65,479
Landfill Closure				101,000
Arbitrage Rebate				16
REVENUE BONDS				
Redevelopment Agency Series 1995	4.75%-6.75%	2020	5,100	4,655
TOTAL GENERAL LONG-TERM DEBT			$1,149,266	$1,037,284

Source: County of San Diego Auditor and Controller.

*To be refunded with the proceeds of the Certificates.

Anticipated Financings

In 2001, the County expects to provide for the issuance of approximately $400 million tobacco settlement revenue bonds to fund endowments to pay the cost of certain health related programs and capital projects. These bonds will not be a debt of the County but will be limited obligations of the Tobacco Securitization Authority of Southern California, a joint powers authority organized by the County and the County of Sacramento.

Direct and Overlapping Debt

The County contains numerous municipalities, school districts and special purpose districts such as water districts, all of which have issued general obligation bonds. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. as of August 14, 2001. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(as of August 14, 2001)

2000-01 Assessed Valuation: $195,717,479,261 (includes unitary utility valuation)
Redevelopment Incremental Valuation: 11,458,590,398
Adjusted Assessed Valuation: $184,258,888,863

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 8/1/01	
Metropolitan Water District of Southern California	17.522%	$ 92,425,046	
San Diego County Water Authority	100.	4,725,000	
Southwestern Community College District	100.	40,000,000	
San Diego Unified School District	100.	289,994,169	
San Diego Unified School District Lease Tax Obligations	100.	129,125,000	
San Marcos Unified School District School Facilities Improvement District No. 1	100.	20,818,019	
Unified School Districts	100.	68,363,696	
Union High School Districts	100.	108,845,117	
School Districts	100.	169,922,774	
Otay Municipal Water District Improvement Districts	100.	11,835,000	
Other Municipal Water Districts	100.	3,205,000	
City of San Diego	100.	16,920,000	
Other Cities	100.	4,820,000	
San Diego Open Space Park Facilities District	100.	45,520,000	
Other Special Districts	100.	1,665,000	
Community Facilities Districts	100.	692,004,283	
1915 Act Bonds (Estimated)	100.	244,463,610	
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$1,944,651,714	
Less: San Diego Open Space Park Facilities District (100% self-supporting)		45,520,000	
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$1,899,131,714	
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Diego County General Fund Obligations	100. %	$ 530,132,500	(1)
San Diego County Pension Obligations	100.	317,345,000	
San Diego County Superintendent of School Obligations	100.	2,175,000	
Community College District Certificates of Participation	100.	79,105,000	
San Diego Unified School District Certificates of Participation	100.	46,070,000	
Other Unified School District Certificates of Participation	100.	87,176,340	
High School District Certificates of Participation	100.	54,429,000	
School District Certificates of Participation	100.	106,851,663	
Municipal Water District Certificates of Participation	100.	30,420,000	
City of San Diego General Fund Obligations	100.	388,475,000	
City of Escondido General Fund Obligations	100.	91,201,420	
Other City General Fund Obligations	100.	309,828,858	
San Miguel Consolidated Fire Protection District Certificates of Participation	100.	10,840,000	
Fallbrook Sanitary District Certificates of Participation	100.	11,335,000	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$2,065,384,781	
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		27,285,000	
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		7,389,000	
City of Oceanside Certificates of Participation		2,965,000	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$2,027,745,781	
GROSS COMBINED TOTAL DEBT		$4,010,036,495	(2)
NET COMBINED TOTAL DEBT		$3,926,877,495	

(1) Excludes refunding certificates of participation to be sold.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2000-01 Assessed Valuation:

Total Gross Direct and Overlapping Tax and Assessment Debt	0.99%
Total Net Direct and Overlapping Tax and Assessment Debt	0.97%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt ($847,477,500)	0.46%
Gross Combined Total Debt	2.18%
Net Combined Total Debt	2.13%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: $4,330,263

SUPPLEMENTAL FINANCIAL INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

State Budget for Fiscal Year 2000-01

Governor Davis signed the 2000-01 State Budget on June 30, 2000. The total spending plan of approximately $94.55 billion represented an increase of approximately 16.2% from the 1999-2000 State Budget. The State Budget projected year-end reserves of $1.2 billion, representing approximately 1.8% of projected 2000-01 General Fund reserves. In addition, the 2000-01 State Budget projected an increase in revenues of $5.8 billion. Approximately 80% of the spending plan relies on the General Fund and approximately 20% on special funds dedicated to specific programs. The 2000-01 State Budget assumed that General Fund revenues would total $68.2 billion, a 4.7% increase from 1999-2000. Expenditures from the General Fund were proposed at $68.8 billion, an increase of 4.5% from 1999-2000.

Forecasts of most key economic indicators in the 2000-01 State Budget were revised upward to reflect the state's strong economy. The capital gains and stock market activity sectors generated approximately $12 billion, or 17% of all General Fund revenues. The personal income tax forecast was increased by $4.437 billion in 1999-2000 and $4.882 billion in 2000-01, for a combined increase of $9.319 billion.

The principal features of the 2000-01 Budget are summarized below:

1. The 2000-01 State Budget provided for a total Proposition 98 spending of $42.7 billion in 2000-01, which included $1.1 billion in spending above the required guarantee level. This augmentation became a permanent part of the ongoing Proposition 98 base amount. Per pupil spending under the 2000-01 State Budget increased from 1999-2000 levels of $6,045 to $6,313, representing a 4.4% increase. The 2000-01 State Budget proposed Proposition 98 spending that exceeded the estimated minimum-funding guarantee by $257 million.

2. The University of California's ("UC") General Fund budget increased under the 2000-01 State Budget by 14.8%, and the CSU budget increased under the 2000-01 State Budget by 8.7%.

3. The CalWORKs program, under the 2000-2001 State Budget, was allotted $2.1 billion in General Fund expenditures, representing a 3.9% increase from 1999-2000. The 2000-01 State Budget also included 3.6% statutory COLA, effective in October 2000. Assuming enactment of legislation prohibiting counties from earning new performance incentive payments until the estimated prior obligation of incentive payments owed to the counties

(approximately $364 million) has been satisfied, the resulting savings to the General Fund was estimated to be $496 million.

4. The 2000-01 State Budget provided for Medi-Cal General Fund spending of $8.7 billion in 2000-01. This represented an increase of 6.6% from 1999-2000. The 2000-01 State Budget also included funding to cover substantial increases in prescription drug costs.

5. The 2000-01 State Budget also funded the implementation of the Transportation 2000 program that provided approximately $3 billion for joint transportation improvement programs and a use-it-or lose-it $1.1 billion from local federal funds and local gas tax reserves.

State Budget for Fiscal Year 2001-02

Governor Davis signed the 2001-02 State Budget on July 26, 2001. The total spending plan of $103.3 billion represents a $2.4 billion increase from the 2000-01 State Budget. Approximately $78.8 billion of the spending plan relies on the General Fund, $21.3 billion on special funds, and $3.2 billion on bond funds. As a result of a slowdown in California's economy and state revenues, the final 2001-02 State Budget reflects significant cutbacks from the spending levels proposed by the Governor in January 2001, except for increases in K-12 spending. The 2001-02 State Budget also includes certain expansions to health programs described below, tax relief provisions for property tax assistance to senior citizens and for agricultural businesses and rural residents consisting of certain exemptions from the sales and use tax for agricultural and rural activities. The spending plan assumes that the General Fund monies spent for electricity purchases in 2000 and 2001 will be reimbursed from revenue bond proceeds.

The 2000-01 fiscal year ended with a reserve of $6.3 billion. In Fiscal Year 2001-02, revenues are projected to fall by 3.7 percent from the prior year to $75.1 billion. A decline in capital gains and stock market activity sectors and the general slowdown in statewide economic activity caused a decrease in revenues from Fiscal Year 2000-01. The year-end reserve is projected to decline to $2.6 billion, or slightly below 3.5 percent of total General Fund revenues. Expenditures are estimated to be $78.8 billion, a 1.7 percent decline from the prior year.

The principal features of the 2001-02 State Budget are summarized below:

1. The 2001-02 State Budget provides approximately $122 million ($115 million General Fund) in tax relief in Fiscal Year 2001-02. The main provision is a permanent 45 percent increase in the senior citizens' property tax assistance program. The 2001-02 State Budget also contains an agricultural and rural tax relief package, which includes sales tax exemptions for agricultural and forestry equipment, liquified petroleum gas, and diesel fuel used for agricultural purposes. In addition, the 2001-02 State Budget lowers the reserve threshold from 4 percent to 3 percent of annual revenues needed to impose one-quarter cent of the state's sales tax adopted in 1991.

2. The 2001-02 State Budget includes full funding for inflation and enrollment growth in K-12, as well as targeted increases for low-performing schools, expanded child care, a settlement of the special education lawsuit, revenue limit equalization, and before and after school programs. In higher education, the 2001-02 State Budget provides full funding for enrollment growth, avoids any fee increases, and generally increases base funding for various programs. The 2001-02 State Budget includes $45.5 billion in Proposition 98 spending in 2001-02 for K-12 education, an increase of $2.5 billion over the current year. The 2001-02 State Budget

provides for funding of $7,002 per pupil, which represents an increase of $324, or 4.9 percent, above the revised current-year level of per-pupil spending of $6,678. Proposition 98 totals (including the revised total for Fiscal Year 2000-01) reflect the Legislature's appropriation of more General Fund monies than is required to meet the constitutional minimum, which was $415 million more than the Fiscal Year 2000-01 minimum funding level and approximately $4 billion more than the guarantee for Fiscal Year 2001-02. The budget allocates almost $2 billion to provide for inflation and growth adjustments. Specifically, the budget includes approximately $565 million to accommodate a projected 1.4 percent increase in the student population, and $1.4 billion for a 3.87 percent cost-of-living adjustment which applies to most program funding.

3. The 2001-02 State Budget appropriates tobacco settlement funds to support expanded coverage under the Healthy Families Program and enhanced coverage for cancer treatment. The 2001-02 State Budget also provides a lump-sum payment of $191 million to settle litigation relating to payment rates for hospital outpatient services, and funding for rate increases for long-term care nursing facilities.

4. The CalWORKs Program and Foster Care programs are allotted increased funding of $97 million from 2000-01 for cost-of-living adjustments and to fund costs associated with a new methodology for CalWORKs beginning in Fiscal Year 2002-03. The 2001-02 State Budget also includes funds to expand services for foster youth, continue cash and food benefits for recent immigrants, and raise the hourly wage for specified In-Home Supportive Services workers.

5. The 2001-02 State Budget allocates $5.3 million to inmate and ward populations for the Departments of Corrections and Youth Authority, respectively. Additionally, the 2001-02 State Budget includes funding of $4.6 billion from the General Fund for the California Department of Corrections for increased health care services and the replacement of electromechanical doors. This represents an increase of $71.2 million, or 1.6 percent, above the 2000-01 funding. The 2001-02 State Budget also contains funding in the Department of Youth Authority for new initiatives related to mental health, substance abuse, and sex-offender treatment. The 2001-02 State Budget also provides funding of $30 million for new and expanded initiatives in the areas of anti-drug related activities, $25 million to fund a local forensic laboratory Improvement program, and $7.6 million to increase law enforcement capabilities in addressing high-technology crime programs, and rural law enforcement assistance programs.

6. The 2000-01 State Budget included a five-year transfer (from 2001-02 through 2005-06) of General Fund sales taxes on gasoline to support traffic congestion relief efforts. The 2001-02 State Budget adopts the Governor's May Revision proposal to postpone the transfer for two years; transfers are now scheduled to take place from 2003-04 though 2007-08. To provide cash resources for transportation projects during the next two years, the 2001-02 State Budget authorizes $560 million in loans from the Motor Vehicle Account, Public Transportation Account, and State Highway Account, which will be repaid beginning in 2006-07. In addition, the 2001-02 State Budget includes a proposed constitutional amendment to permanently dedicate the sales taxes on gasoline to transportation-related projects beginning in 2003-04.

7. The 2001-02 State Budget includes allocations of $7.7 million from the General Fund for Energy Commission power plant siting workload, $3.7 million ($2.7 million General Fund)

for Public Utilities Commission work regarding power plant siting and operation, generation, transmission, and conservation issues, and $1.8 million for the Electricity Oversight Board for issues related to market monitoring and power plant outage and maintenance standards.

Changes in State Budget

The State has in prior years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will encounter budgetary problems for the 2001-02 Fiscal Year and if it does, it is not clear what measures will be taken by the State to balance the budget as required by law. The County cannot predict the ultimate impact of the State's budget on its finances and operations.

SAN DIEGO COUNTY INVESTMENT POOL

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The Treasury Pool's Portfolio

As of July 31, 2001, the securities in the Treasury Pool had a market value of $2,525,261,954 and a book value of $2,508,881,463, for a net unrealized gain of .648% or $16,380,491 of the book value of the Treasury Pool. As of July 31, 2001, the weighted average maturity of the Pool portfolio was approximately 564 days. As of July 29, 2001, 30.08% of the Pool was invested in securities with maturities ranging from 1-30 days, 11.99% of the Pool was invested in securities with maturities ranging from 31-90 days, 11.39% of the Pool was invested in securities with maturities ranging from 91-180 days, 1.47% of the Pool was invested in securities with maturities ranging from 181-365 days, 2.70% of the Pool was invested in securities with maturities ranging from 366 to 2 years, and 41.64% of the Pool was invested in securities with maturities between 2 and 5 years.

The duration for the Treasury Pool was 1.41 years as of July 31, 2001. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 1.41 means that for every one percent increase in interest rates the market value of the portfolio would decrease by .41 percent.

As of July 31, 2001, approximately 1.98% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 6.20% by community colleges, 46.63% by the County, and 40.94% by K-12 school districts.

Fitch, Inc. maintains ratings on the Pool's ability to meet its financial commitments of "AAA" (long-term) and "V1 +" (short-term volatility). Standard & Poors Ratings Group maintains ratings on the Pool's ability to meet its financial commitments of "AAAf" (long-term) and "S1" (short-term volatility). The ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings may be obtained from such rating agencies as follows: Fitch, Inc., One State Street Plaza, New York, New York 10004 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 52% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread approximately equally over more than one year to five years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business July 31, 2001. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on July 31, 2001, the Pool necessarily would have received the values specified.

Treasurer-Tax Collector
San Diego County Portfolio Statistics
As of July 31, 2001

	Percent of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/(Loss)	Yield to Maturity	Weighted Average Days to Maturity
Federal Farm Credit Bank Notes	0.59%	$ 14,986,075	100.11%	$ 305,500	$15,016,350	$30,275	6.08%	41
Federal Home Loan Bank Notes	17.41%	432,748,077	101.52%	6,447,293	439,570,074	6,821,998	6.02%	921
Federal National Mortgage Association Notes	24.34%	608,971,670	100.92%	12,052,667	614,758,200	5,786,528	5.71%	1,230
Federal Home Loan Mortgage Authority Notes	6.23%	154,920,515	101.45%	2,234,056	157,250,700	2,330,185	6.10%	1,451
Corporate Medium Term Notes	3.09%	77,822,193	100.37%	1,402,759	78,063,079	240,886	6.35%	75
Money Market Funds	10.18%	257,000,000	100.00%	1,066,621	257,000,000	0	3.88%	1
Repurchase Agreements	9.90%	250,000,000	100.00%	27,368	250,000,000	0	4.20%	1
Negotiable Certificates of Deposit	4.98%	125,002,291	100.67%	4,986,285	125,832,500	830,209	6.22%	97
Commercial Paper	23.26%	586,940,642	99.59%	0	587,281,051	340,409	4.35%	41
Collateralized Certificates of Deposit	0.02%	490,000	100.00%	6,980	490,000	0	5.51%	131
Totals for July 2001	100.00%	$2,508,881,463	100.52%	$28,529,531	$2,525,261,954	$16,380,491	5.15%	564
Totals for June 2001	100.00%	$2,728,729,215	100.17%	$24,437,428	$2,738,212,319	$9,483,103	5.29%	559
Change from Prior Month		($219,847,752)	0.36%		($212,950,365)	$6,897,387	-0.14%	5
Overall Portfolio Duration		1.41 years						

	July 2001 Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.439%	5.163%	6.765%	6.235%	3.367%	5.797%
Market Value	0.689%	8.112%	9.398%	8.662%	4.486%	7.723%

THE AUTHORITY

The Authority is a joint exercise of powers authority, organized pursuant to the laws of the State of California and a Joint Exercise of Powers Agreement dated August 27, 1987 between the County and MTDB. The Authority is a separate entity constituting a public instrumentality of the State of California and was formed for the public purpose of assisting in the development of public projects, including the Property. For information with respect to the County, see "The County," "County Financial Information" herein and Appendix A – "Economic and Demographic Information Regarding the County of San Diego." MTDB was created pursuant to the Mills-Deddeh Transit Development Act, (Division 11, Chapter 1 of the California Public Utilities Code Sections 120050 *et seq.*), for the purpose of planning and constructing public mass transit guideways in conformance with the California Transportation Plan and regional transportation plans and to provide for long-term transportation systems planning in the area under its jurisdiction. The area under the jurisdiction of MTDB consists of the Cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee and the unincorporated area within the County.

The Authority is governed by the Commission of the Authority, which is made up of three commissioners. Two of the commissioners are appointed by the Board of Supervisors of the County. One of those commissioners must be a Supervisor who serves on the Board of Directors of San Diego Trolley Inc., a subsidiary of MTDB that operates the MTDB light rail trolley system, and the other must be a Supervisor who serves on the Board of Directors of MTDB. The third commissioner is appointed by the Board of Directors of MTDB from the membership of the Board of Directors of MTDB. The officers of the Authority are appointed by the Commission.

The Authority has previously issued bonds on behalf of another public agency. Such bonds are not payable from or secured by any payments to be made by the County. Further information concerning the Authority may be obtained from San Diego Regional Building Authority office at 1255 Imperial Avenue, Suite 100, San Diego, California 92101.

LIMITATIONS ON TAX REVENUES

Article XIIIA

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIIIA to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIIIA provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIIIA (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The Participants are unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace any lost property tax revenues. Article XIIIA effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIIIB

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIIIB to the California Constitution. In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Article XIIIB of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIIIB include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIIIB do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIIIB includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the Participants in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the Participants' option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIIIB permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid. The decision did not address the question of whether or not it should be applied retroactively.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. No challenge has been instituted against the imposition or collection of this tax. The County has collected approximately $8,014,492 from the increase in the transient occupancy tax since fiscal year 1997-98. The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax or order to refund any previously collected taxes will not adversely affect the ability of the County to repay the Certificates or any of its other obligations as and when due.

Right to Vote on Taxes Initiative-Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges, However, other than any impact resulting from the exercise of this initiative power, presently the County does not believe that the potential financial impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay the principal of and interest with respect to Certificates as and when due and its other obligations payable from the General Fund.

Article XIIIC of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIIIC of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in Rossi v. Brown, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in Rossi v. Brown by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996, and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIIIC or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIIC as they do in Article XIIID, as described below. Accordingly, the scope of the initiative power under Article XIIIC could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIIIC of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest represented by the Base Rental Payments of the Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIIID of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIIID of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees under Article XIIID of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The County has a clean water enterprise fund which is self-supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIIID of Proposition 218. Further, the fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIIID of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIIIC of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIC, Article XIIID and Propositions 39, 98 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting Participants' revenues or their ability to expend revenues.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

Not a Pledge of Taxes

The obligation of the County to pay the Base Rental Payments or Additional Rental does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments or Additional Rental does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Lease that, for as long as the Property are available for its use and possession, it will make the necessary annual appropriations within its budget for all Base Rental Payments. The County is currently liable on other obligations payable from general revenues.

Additional Obligations of the County

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

Limitations on Remedies

The rights of the owners of the Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. The County may invest, and direct the Trustee to invest, amounts held in the Certificate Reserve Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the Treasury Pool, which amounts are pledged to repay the Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the federal bankruptcy code, a court might hold that the Owners of the Certificates do not have a valid lien on the amounts held in such funds where such amounts are deposited in the Treasury Pool and may not provide the Owners of the Certificates with a priority interest in such amounts. In such instance, unless such Owners could "trace" the funds, the Owners would be only unsecured creditors of the County. There can be no assurance that the Owners could successfully so "trace" the amounts representing amounts held in such funds.

Default

In the event of a default, the Trustee has the option to terminate the Lease or to reenter or relet the Leased Premises without such termination and collect each installment of rent as it becomes due and enforce any other term or provision of the Lease to be performed by the County. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Lease, nor is the Trustee empowered to sell the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. In the event the Trustee does not elect to terminate the Lease, then, the County shall remain liable to perform all covenants and conditions to be performed by the County and, to pay the rent to the end of the term of the Lease or, in the event that the Property is re-let, to pay any deficiency in rent that results therefrom. The Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Certificate Reserve Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Lease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Lease shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Property.

Earthquakes

The County is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance.

Recent Developments Concerning Electricity

General. The State of California has recently experienced power shortages and significant increases in the wholesale cost of power. As part of California's 1996 deregulation plan, private investor-owned utilities in California, Pacific Gas & Electric ("PG&E"), Southern California Edison ("SCE") and San Diego Gas & Electric ("SDG&E") (collectively, "IOUs") were prohibited from increasing retail rates and did not enter into long-term contracts to purchase power. Subsequently, as a result of various factors, wholesale prices have increased considerably over the past year. It has been reported recently that IOUs have accumulated approximately $14 billion in debt as a result of these increased prices in the wholesale spot market.

The IOUs have attempted to resolve their financial difficulties through various actions. On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the Federal Bankruptcy Code, reporting that it had accumulated an $8.9 billion deficit as of February 28, 2001. It is unknown at this time what effect PG&E's bankruptcy filing will have on the current California energy situation. On April 9, 2001, the State and SCE entered into a Memorandum of Understanding ("MOU") pursuant to which the State will purchase the power transmission lines of SCE for $2.76 billion in order to assist the utility in paying its debts and to avoid bankruptcy. The MOU is subject to the enactment of authorizing legislation and approval by the California Public Utilities Commission ("CPUC"). In addition, the State is currently negotiating with SDG&E for the purchase of its power transmission lines. It is unknown at this time what effect the State's purchase of IOU transmission lines will have on property taxes or utility taxes due or allocable to counties or local agencies.

Retail rates for electricity have also increased significantly. In January 2001, PG&E and SCE implemented a temporary 9 percent increase in electricity rates pursuant to the CPUC. On March 27, 2001, the CPUC unanimously approved an increase of $0.03 per kilowatt-hour ("kWh") for PG&E and SCE. The CPUC decision will increase rates by 42 percent for some SCE customers and up to 46 percent for certain PG&E customers. The average overall utility bill will increase by approximately 24 percent. Continued retail rate increases will increase the costs of power for the County and may have an adverse affect on the State's general economy.

The State has taken several actions to mitigate the short-term and long-term effects of the power shortages on the State's economy. On February 1, 2001, Governor Davis signed Chapter 4, Statutes of 2001 ("AB 1X"), which authorized the State Department of Water Resources (the "DWR") to enter into long-term contracts to purchase electricity for resale to customers of California's IOUs. On May 10, 2001, Governor Davis signed Chapter 9X, Statutes of 2001 ("SB 31X"), which provides for implementation and clarification of various matters relating to DWR's activities with respect to the energy situation, including authorization of up to $13.423 billion in revenue bonds. Revenues received from retail end-use utility customers will secure the bonds. SB 31X will be effective on August 14, 2001. Under the terms of AB 1X, all General Fund outlays for DWR electricity purchases, including interest costs since January 17, 2001, are to be reimbursed from the proceeds of such revenue bonds. The DWR plans to use bond proceeds also to fund power purchases until wholesale energy prices stabilize.

Total General Fund appropriations to date for State power purchases are approximately $8 billion since January 2001. Electricity purchases by the DWR and other efforts of the State to stabilize the wholesale power market are intended to ultimately lower the wholesale cost of electricity in California. However, given current market conditions, the costs of power are expected to remain significantly in excess of current-regulated customer rates during 2001.

There can be no assurance that there will not be future disruptions in energy supplies or related developments that could affect the State's revenues. Further, power purchases by the State from General Fund appropriations have significantly reduced the State's cash reserves and there can be no assurance that the State's plan to issue bonds or notes to reimburse it for these appropriations will occur. In addition, the higher retail rates for electricity and disruptions in service caused by shortages may adversely impact the general economy of the State. Slower than expected economic growth could adversely affect projected revenues for the State for fiscal year 2001-02 and subsequent fiscal years. Any of these developments could adversely impact the financial condition of the County.

These developments at the State level may, in turn, affect local governments. California counties receive approximately 10%-15% of their general fund revenues from property taxes and substantially all of the balance of their revenues is provided by the State. The State's revenue transfers to local governments could be reduced or the State could decide to shift certain of its financial obligations to local governments to compensate for large expenditures for power. It is unknown at this point if the State's actions in connection with the energy situation will have an adverse effect on future county revenues received from the State. Current fiscal year State revenue transfers to counties is not anticipated to be significantly impacted. Local governments, including the County, might also be adversely affected, directly and indirectly, by a loss of local tax revenue from IOU property tax payments and a decline in State revenues and subsequent appropriations to local governments due to a general downturn in the economy.

Effect on the County. The County is supplied with electricity and natural gas solely by SDG&E. To date, the County has experienced limited power shortages which, to date, have not affected the County's operations; however, any future temporary reduction or loss of power could materially adversely affect the operations of the County. Future rate increases may increase the County's total utility costs and high electricity costs to retail end users may indirectly affect the County's economy. The County has estimated its energy costs and created contingencies should rates escalate during the summer. The County estimates current year utility cost overruns at $31.5 million and estimates that a yearly appropriation of approximately $16.7 million would be needed if the County experiences a subsequent full year of higher rate payments. The County cannot guarantee there will not be an interruption in electric or gas service in the future or that prices for electricity or gas will not materially increase.

For Fiscal Year 2000-01, approximately 2.27%, or $6,315,064 of the County's General Fund property taxes of $278,183,227.46 are derived from SDG&E and 1.95% or $5,425,634 are derived from SCE. This portion represents approximately .46% of the County's total General Fund revenues of $2,528,222,175. *Ad valorem* real property taxes are secured by the respective real property prior to all other obligations that may also be secured by such real property.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Upon delivery of the Certificates, The Arbitrage Group, independent accountants, will deliver a report on the arithmetical accuracy of certain computations contained in schedules provided to them by the Underwriters relating to (a) the adequacy of the maturing principal of and interest on certain obligations and certain other moneys to pay all of the principal and prepayment premium represented by and the interest due with respect to the Refunded Certificates to be refunded as such principal, prepayment premium and interest become due and payable, and (b) the computations of actuarial yield used by Special Counsel to support its opinion that the Certificates are not arbitrage bonds within the meaning of Section 148 of the Code. See "Plan of Refunding".

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental

Payment attributed to and constituting interest paid by the County under the Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Obligations") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Obligations, the interest evidenced by which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Obligation, will be reduced by the amount of amortizable premium properly allocable to such purchaser. Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various requirements that must be met in order for interest evidenced by the Certificates to be excluded from gross income for federal income tax purposes. The County made representations related to certain of these requirements and has covenanted to comply with certain of these requirements. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Certificates.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Base Rental Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any Certificate or the portion of each Base Rental Payment attributed to and constituting interest if any such change occurs or action is taken or omitted upon the advice or approval of Special Counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel is of the opinion that the portion of each Base Rental Payment attributed to and constituting interest is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment designated as and comprising interest, may otherwise affect the federal or state tax liability of an owner of a Certificate. The nature and extent of these other tax consequences will depend upon the particular tax status of the Certificate owner or the Certificate owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest evidenced by the Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Certificate owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Certificates for audit examination, or the course or result of any IRS examination of the Certificates, or obligations which present similar tax issues, will not affect the market price for the Certificates.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix E hereto. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Authority by the County Counsel.

FINANCIAL ADVISOR

Sutro & Co. Incorporated served as the Financial Advisor to the County in connection with the execution and delivery of the Certificates. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness, of the information contained in this Official Statement.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing in Appendix B. KPMG LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to its report dated November 17, 2000.

LITIGATION

No litigation is pending, or to the best knowledge of the County, threatened against the County or the Authority concerning the validity of the Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Authority or contesting the County's ability to levy and collect *ad valorem* property taxes. There are a number of suits and claims pending against the County, all of which are in the normal course of the County's business. Also pending are a number of personal injury and wrongful death suits and claims, the aggregate amount of which will not, in the opinion of the County Counsel, materially affect the County's finances or impair its ability to make Base Rental Payments under the Lease in amounts sufficient to pay, when due, amounts designated as principal and interest with respect to the Certificates.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Certificates a rating of "Aaa," Standard & Poor's ("S&P") has assigned the Certificates a rating of "AAA" and Fitch, Inc. ("Fitch") has assigned the Certificates a rating of "AAA," with the understanding that the Insurer will issue a Financial Guaranty Insurance Policy concurrently with the execution and delivery of the Certificates. Additionally, Moody's has assigned the Certificates an underlying rating of "A1," S&P has assigned the Certificates an underlying rating of "AA-," and Fitch has assigned the Certificates an underlying rating of "AA-." Such ratings reflect only the views of Moody's, S&P and Fitch and do not constitute a recommendation to buy, sell or hold the Certificates. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Service, Inc. 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317; Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; and Fitch, Inc. One State Street Plaza, New York, New York 10004, telephone number (212) 908-0500. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by Morgan Stanley & Co. Incorporated, as Representative, on behalf of itself and First Albany Corporation (the "Underwriters"), pursuant to a Purchase Contract with the County (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of $38,299,269.25 (representing the principal amount of the Certificates, plus an original issue premium of $1,654,666.00, less an Underwriter's discount of $315,396.75), plus accrued interest. The Purchase Contract relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the trustee, acting as Dissemination Agent (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided by no later than 180 days after the end of the prior fiscal year (commencing with the report for the County's fiscal year ended June 30, 2001), to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and information of the type set forth in this Official Statement under the headings "County Financial Information" and "San Diego County Investment Pool". In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) optional, contingent or unscheduled Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Dissemination Agent may amend the Disclosure Agreement, and waive any provision thereof (and the Dissemination Agent shall agree to any amendment so requested by the County, so long as such amendment does not adversely affect the rights or obligations of the Dissemination Agent), by written agreement of the parties, without the consent of the Owners of the Certificates, if all of the following conditions are satisfied: (a) if the amendment or waiver relates to the provisions governing the provision and content of the annual report or Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted; (b) the Disclosure Agreement as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (i) is approved by the holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates. The County shall describe such amendment or waiver and the reason therefor in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance, prior prepayment or payment in full of all of the Certificates. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Certificates and beneficial owners of the Certificates and shall be enforceable by the Trustee on behalf of such owners and any owners of Certificates, provided that any enforcement action by any such person shall be permitted to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the County.

COUNTY OF SAN DIEGO

By: /s/William B. Kelly
Chief Financial Officer

Dated: September 20, 2001

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately $10 billion annually to the retail and service businesses of the area.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center, containing 354,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms began operation in November 1989. The Convention Center can accommodate events for 30,000 to 40,000 people. During 1990, its first year of operation, 354 events were held, attracting 1.1 million guests. An estimated 280,000 of these guests were from out of town. Major conventions and trade shows are scheduled into the year 2009.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (i) regional services such as courts, probation, medical examiner, jails, elections and public health; (ii) health, welfare and human services such as mental health, senior citizen and child welfare services; (iii) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (iv) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

County Government

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Growth Management

The County has fostered a regional growth management plan rather than development limitations. The current regional growth management effort was approved by the voters in November 1988 as Proposition C, the only one of five growth-related measures on the ballot to be approved. It provides for a voluntary planning process to help define, plan, and prepare for the impacts of growth on a regional basis. Representatives of the County and each of the 18 incorporated cities within the County agreed to a growth management board that came into being in 1990 through an amendment to the SANDAG joint powers agreement designating SANDAG as the board. The board has no power to limit growth in any jurisdiction.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population for 2000 was estimated to be approximately 2,912,000 million, making it the second largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2000 population increased 1.96% from 1999.

Population in the County is expected to grow to over 3.2 million people by the year 2005, to over 3.6 million people by 2015, and to over 3.8 million people by 2020 resulting in a 33% increase over this twenty year period which is nearly a 17% increase over the existing population.

The City of San Diego is the sixth largest city in the nation, and had a population of approximately 1,277,200 people in as of January 1, 2000.

The following table shows changes in the population in the County, the State and the United States for the years 1990 to 2000.

POPULATION ESTIMATES
(in Thousands)

Year	San Diego County (000)[1]	Percent Change	State of California (000)	Percent Change	United States	Percent Change
1990	2,480	–	29,758	–	250,567	–
1991	2,540	2.42%	30,296	1.81%	253,419	1.14%
1992	2,584	1.73	31,812	5.00	256,304	1.14
1993	2,614	1.16	31,303	(1.60)	258,939	1.03
1994	2,639	.96	31,661	1.14	261,431	.96
1995	2,659	.76	31,910	.79	263,909	.95
1996	2,682	.86	32,223	.98	266,398	.94
1997	2,791	4.06	32,670	1.39	268,930	.95
1998	2,796	.18	33,226	1.70	271,387	.91
1999	2,856	2.15	33,766	1.63	273,828	.90
2000	2,912	1.96	34,336	1.69	276,059[1]	.81

Sources: State of California Department of Finance; U.S. Bureau of the Census.
(1) Estimated population as of November 1, 2000.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,404,100 in calendar year 2000. The number of employed workers in the labor force averaged approximately 1,362,100. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1996 through 2000.

LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 1995-1999
By Place of Residence
(in Thousands)

	1996	1997	1998	1999	2000
County of San Diego					
Labor Force	1,241.3	1,285.0	1,319.4	1,342.6	1,404.1
Employment	1,175.9	1,230.7	1,273.0	1,300.0	1,362.1
Unemployment Rate	5.3%	4.2%	3.5%	3.2%	3.0%
State of California					
Labor Force	15,511.6	16,093.4	16,329.1	16,583.1	17,090.8
Employment	14,391.5	14,936.9	15,360.6	15,703.8	16,245.6
Unemployment Rate	7.2%	6.3%	5.9%	5.3%	4.9%
United States					
Labor Force	133,943.0	136,297.0[(1)]	136,297.0[(1)]	139,368.0	140,863.0
Employment	126,708.0	129,558.0[(1)]	131,463.0[(1)]	133,488.0	135,208.0
Unemployment Rate	5.4%	4.9%	4.3%	4.2%	4.0%

Sources: State Data - California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.

* Data not seasonally adjusted.

[(1)] Data for 1997 not strictly comparable with data for prior years. Beginning in January 1998, data are not strictly comparable with data for 1997 and earlier years because of the introduction of new estimation procedures and revised population controls used in the household survey.

Employment by industry statistics for San Diego County are tabulated on a major statistical area basis (the 'MSA"). Non-agricultural employment for totaled 1,196,500 jobs in 2000. The services industry constitutes the largest employment sector and accounted for approximately 33.5% of nonagricultural employment in 2000, with a total of 400,600 jobs. The wholesale and retail trade industries were the second largest sector in 2000, comprising approximately 22.4% of non-agricultural employment with a total of 267,800 jobs.

During 2000, government accounted for approximately 17.3% of total employment and manufacturing accounted for an additional 10.8%. The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve exclusively the local market. These two sectors are therefore directly influenced by the growth of population and housing.

The following table sets forth the annual average employment within the County, by employment sector, for the fiscal years 1996 through 2000.

SAN DIEGO COUNTY
LABOR FORCE AND INDUSTRY EMPLOYMENT
NON-AGRICULTURAL ANNUAL AVERAGES 1996-2000
By Place of Work
(in Thousands)

Employment Sector	1996	1997	1998	1999	2000
Mining	0.4	0.4	0.3	0.3	0.4
Transportation Public Utilities and Communications	38.3	41.6	47.0	51.3	50.9
Construction	45.5	53.0	61.8	67.0	70.4
Wholesale and Retail Trade Manufacturing	117.5	123.1	127.6	128.1	129.7
Wholesale and Retail Trade	235.9	244.0	249.4	256.5	267.8
Finance, Insurance and Real Estate	57.4	60.9	65.3	68.7	69.8
Services	321.2	339.3	359.6	381.7	400.6
Government	190.1	192.0	194.5	199.3	206.8
Total, All Non- Farm Industries	1,006.2	1,054.2	1,105.5	1,152.9	1,196.5

Sources: California Employment Development Department.

The following table sets forth the major employers in the County as of December 31, 1999:

SAN DIEGO COUNTY
LARGEST EMPLOYERS

Firm	Service/Product
10,000 OR MORE EMPLOYEES:	
Federal Government State of California	Government
University of California, San Diego	Higher Education
County of San Diego	Government
San Diego Unified School District	Education
City of San Diego	Government
5,000-9,999 EMPLOYEES:	
Sharp Healthcare Corp.	Healthcare
U.S. Postal Service	Postal Service
QUALCOMM, Inc.	Telecommunications
Kaiser Permanente Medical Group	Healthcare
Scripps Health	Healthcare
Pacific Bell	Telecommunications
3,000-4,999 EMPLOYEES:	
Science Applications International Corp.	Technology Services
Albertson's Inc	Retail Food Chain
Sempra Energy	Utilities
San Diego State University	Higher Education
Sony Technology Center	Communication-Wireless
Palomar Pomerado Health Systems	Healthcare
United Parcel Service	Mail Delivery Service
National Steel & Shipbuilding Co.	Shipbuilders and Repairers
Ace Parking	Parking Stations and Garages
2,000-2,999 EMPLOYEES:	
Scripps Research Institute	Research
Grossmont-Cuyamaca Community College	Education
Palomar Community College	Education
City of Chula Vista	Government
Children's Hospital & Health Center	Healthcare
Callaway Golf Co.	Recreation Manufacturer
Hewlett Packard Company	Electronic Instruments Manufacturer
Cajon Valley Union School District	Education

Source: San Diego County Chamber of Commerce.

Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

The GRP for 2000 rose to $104.4 billion from $94.4 billion in 1999. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1989 through 2000.

COUNTY OF SAN DIEGO
GROSS REGIONAL PRODUCT

Year	Gross Regional Product (Billion $)	Annual Percent Change Current Dollars San Diego	Real Change* San Diego
1989	$ 59.3	10.5%	6.3%
1990	63.1	6.3	1.5
1991	65.2	3.5	-0.3
1992	66.2	1.5	-1.1
1993	67.8	2.3	0.4
1994	70.5	4.0	2.0
1995	73.6	4.4	2.1
1996	77.4	5.2	3.0
1997	83.0	7.2	4.4
1998	88.5	6.6	5.6
1999	94.4	6.7	5.2
2000[1]	104.4	6.4	4.5

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

* Adjusted using the GDP/GSP Implicit Price Deflator.

(1) Not reported as final.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about $10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

Building Activity

Building permit valuation for both residential and non-residential construction in the County in 2000 increased over 1999 levels by 1.78%. Even though measures limiting new housing remain in effect in areas throughout the County, residential valuations increased 0.75%. Non-residential valuations increased 4.11%. This increase in valuations is attributable to the construction of $25.9 million in hotel projects and $72.8 million in new office building and parking structure projects.

Annual total building permit valuation and the annual unit total of new residential permits from 1995 through 2000 are shown in the following table.

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
(in Thousands)

	1995	1996	1997	1998	1999	2000
Valuation						
Residential	$1,187,952	$1,358,355	$2,032,771	$2,314,056	$2,985,960	$3,008,209
Non-Residential	627,298	738,595	958,229	1,211,275	1,336,628	1,391,497
Total	$1,815,250	$2,096,950	$2,991,000	$3,525,331	$4,322,588	$4,399,706
New Housing Units						
Single Family	4,736	5,816	8,338	9,160	9,993	9,166
Multiple Family	1,872	1,052	3,064	3,013	6,434	6,760
Total	$ 6,608	$ 6,868	$ 11,402	$ 12,173	$ 16,427	$ 15,926

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for Calendar Year 1999 resulted in approximately $32,752,405 in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for Calendar Years 1995-1999.

COUNTY OF SAN DIEGO
TAXABLE SALES
Calendar Years 1995-1999
(000's Omitted)

Type of Business	1995	1996	1997	1998	1999
Apparel Stores	$ 850,087	$ 864,819	$ 926,657	$ 1,029,691	$ 1,050,003
General Merchandise	2,962,497	3,088,863	3,285,977	3,561,551	3,966,854
Specialty stores	2,335,210	2,473,042	2,739,312	2,991,422	3,311,320
Food Stores[(1)]	1,338,932	1,396,132	1,337,330	1,375,365	1,469,238
Home Furnishings/Appliances	855,180	898,482	858,165	955,772	1,085,001
Eating and Drinking Establishments	2,271,296	2,385,143	2,523,340	2,714,916	2,929,084
Building Materials and Group	1,091,926	1,204,684	1,466,965	1,671,507	1,882,514
Automotive	4,278,825	4,623,162	4,728,592	5,041,798	5,868,743
All Other Retail Stores	197,330	207,058	535,973	594,504	672,926
Business and Personal Services	1,270,837	1,373,745	1,538,544	1,703,325	1,863,511
All Other Outlets	5,981,923	6,623,435	7,467,671	7,976,153	8,653,211
TOTAL ALL OUTLETS	$23,434,043	$25,138,565	$27,408,526	$29,616,004	$32,752,405

Source: California State Board of Equalization, Taxable Sales in California.
[(1)] Sales by liquor stores for years 1995 and 1996 are included with Food Stores total.

Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 1995 and 1999.

COUNTY OF SAN DIEGO
PERSONAL INCOME
For Years 1995 through 1999

Year and Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
1995		
San Diego County	45,541,671	33,679
California	477,640,503	34,533
United States	3,964,285,118	32,238
1996		
San Diego County	40,913,543	34,445
California	492,516,991	35,216
United States	4,161,512,384	33,482
1997		
San Diego County	43,212,824	35,725
California	524,439,600	36,483
United States	4,399,998,035	34,618
1998*		
San Diego County	46,056,143	36,296
California	551,999,317	37,091
United States	4,621,491,730	35,377
1999		
San Diego County	49,907,828	39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233

Source: Market Statistics, Demographics USA – County Edition.
Sales and Marketing Management – Survey of Buying Power.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Del Mar and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $5.2 billion in 2000, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately $5.0 million from the prior year. The County hosted 51 conventions and trade shows in 2000, attended by approximately 261,590 delegates, who spent approximately $248,127,238.

Education

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California at San Diego, National University, the University of San Diego, Point Loma College, California State University - San Marcos, United States International University, and the University of Phoenix.

APPENDIX B

COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2000

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APPENDIX B

THE COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2000

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KPMG

760 B Street
San Diego, CA 92101

Independent Auditors' Report

The Honorable Board of Supervisors of the
County of San Diego:

We have audited the accompanying general purpose financial statements of the County of San Diego, California (the County) as of and for the year ended June 30, 2000, listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the management of the County. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County of San Diego, California at June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types, and the changes in net assets of its pension trust fund and investment trust fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 17, 2000

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000
With Comparative Figures for June 30, 1999
(In Thousands)

		GOVERNMENTAL FUND TYPES			
		GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS					
Equity in Pooled Cash and Investments	$	68,184	94,439	1,379	10,197
Cash with Fiscal Agent		136,477	848	30,684	56,973
Collections in Transit		2,118	4,358		
Imprest Cash		225	16		
Investments					
Taxes Receivable		592			
Accounts and Notes Receivable		196,910	25,742	356	601
Due from Other Funds		153,651	5,386	31	3,613
Advances to Other Funds		689	157	508	
Inventory of Materials and Supplies		7,687	3,007		
Deposits with Others			127		7
Restricted Assets:					
Investments			102,014		
Fixed Assets, Net					
Amount Available in Debt Service Funds					
Amount to be Provided for Retirement of General Long-Term Debt					
Total Assets and Other Debits	$	566,533	236,094	32,958	71,391
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts Payable	$	32,298	4,493	167	909
Accrued Payroll		29,072	1,613		
Accrued Interest					
Amount Due for Tax & Revenue Anticipation Notes		131,607			
Due to Other Funds		19,046	7,754	5	5,470
Obligations Under Securities Lending					
Due to Other Governments					
Advances from Other Funds			311	287	4,430
Amount Due for Commercial Paper Notes					
Deferred Revenue		1,585	14,168		6,287
Long-Term Debt Payable					
Total Liabilities		213,608	28,339	459	17,096
Equity and Other Credits:					
Investment in General Fixed Assets					
Contributed Capital					
Retained Earnings:					
Unreserved					
Fund Balances:					
Reserved for Encumbrances		91,888	24,051		41
Reserved for Loans		7,202	18,842		
Reserved for Deposits with Others			54		
Reserved for Inactive Landfill Maintenance			104,224		
Reserved for Inventory of Materials and Supplies		7,687	280		
Reserved for Debt Service				32,499	
Reserved for Pool Participants					
Reserved for Employees' Pension Benefits					
Unreserved:					
Designated for Subsequent Years' Expenditures		88,765	87		
Undesignated		157,383	60,217		54,254
Total Equity and Other Credits		352,925	207,755	32,499	54,295
Total Liabilities, Equity and Other Credits	$	566,533	236,094	32,958	71,391

See Notes to General Purpose Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000
With Comparative Figures for June 30, 1999
(In Thousands)

STATEMENT 1A

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	2000	1999
61,482	106,391	1,941,496			2,283,568	1,869,043
		279,583			504,565	630,666
46	52	6,851			13,425	13,554
2	201	76			520	502
		4,242,134			4,242,134	3,732,271
		212,674			213,266	199,613
1,574	640	80,420			306,243	243,664
2,086	13,759	24,122			202,648	123,265
3,871	134				5,359	4,533
119	2,522				13,335	11,905
					134	712
					102,014	102,771
70,386	57,364	1,437	1,236,708		1,365,895	1,385,898
				32,499	32,499	29,062
				1,085,105	1,085,105	1,075,973
139,566	181,063	6,788,793	1,236,708	1,117,604	10,370,710	9,423,432
1,565	13,594	87,046			140,072	72,628
144					30,829	25,513
1					1	1
					131,607	176,978
2,404	19,563	148,406			202,648	123,265
		206,065			206,065	317,799
99		684,959			685,058	594,478
331					5,359	4,533
		71,630			71,630	55,900
276	1,503				23,819	39,386
716	71,568			1,117,604	1,189,888	1,182,381
5,536	106,228	1,198,106		1,117,604	2,686,976	2,592,862
			1,236,708		1,236,708	1,273,953
44,456	57,459				101,915	78,027
89,574	17,376				106,950	81,891
					115,980	81,079
					26,044	21,282
					54	54
					104,224	105,186
					7,967	7,952
					32,499	29,062
		1,318,081			1,318,081	1,071,074
		4,272,606			4,272,606	3,810,555
					88,852	61,848
					271,854	208,607
134,030	74,835	5,590,687	1,236,708		7,683,734	6,830,570
139,566	181,063	6,788,793	1,236,708	1,117,604	10,370,710	9,423,432

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2000
With Comparative Figures for Year Ended June 30, 1999
(In Thousands)

STATEMENT 1B

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTALS (MEMORANDUM ONLY) 2000	TOTALS (MEMORANDUM ONLY) 1999
Revenues:						
Taxes	$ 314,570	27,522	703	1,598	344,393	338,487
Licenses, Permits and Franchises	22,233	9,563			31,796	31,095
Fines, Forfeitures and Penalties	27,406	2,002		6,827	36,235	27,015
Revenue from Use of Money and Property	25,284	17,708	1,518	4,009	48,519	40,939
Aid from Governmental Agencies:						
State	1,023,420	43,454		3,601	1,070,475	944,680
Federal	392,202	60,697		2,069	454,968	416,159
Other	35,638	8,511	4,036	1,385	49,570	57,234
Charges for Current Services	189,365	18,383		1,652	209,400	211,290
Other Revenue	25,052	3,552		178	28,782	31,130
Total Revenues	2,055,170	191,392	6,257	21,319	2,274,138	2,098,029
Expenditures:						
Current:						
General	147,684	3,195			150,879	185,426
Public Protection	650,705	16,860			667,565	575,825
Public Ways and Facilities	1,742	70,979			72,721	80,127
Health and Sanitation	355,982	14,397			370,379	319,505
Public Assistance	681,751	55,533			737,284	703,132
Education	383	13,880			14,263	11,325
Recreational and Cultural	10,836	1,557			12,393	11,203
Capital Outlay	1,654			53,585	55,239	47,098
Debt Service	7,657		99,912		107,569	103,448
Total Expenditures	1,858,394	176,401	99,912	53,585	2,188,292	2,037,089
Excess of Revenues Over (Under) Expenditures	196,776	14,991	(93,655)	(32,266)	85,846	60,940
Other Financing Sources (Uses):						
Sale of Fixed Assets	900	165		212	1,277	529
Proceeds of Lease Purchase Financing Instruments	1,654				1,654	3,856
Operating Transfers In	2,989	57,124	96,667	93,347	250,127	186,301
Operating Transfers (Out)	(124,641)	(58,205)	(9,794)	(65,417)	(258,057)	(185,089)
Long-Term Debt Proceeds		2,014	25,236	58,199	85,449	73,010
Transfers to Escrow Agent		(1,717)	(15,017)	(906)	(17,640)	(70,779)
Total Other Financing Sources (Uses)	(119,098)	(619)	97,092	85,435	62,810	7,828
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	77,678	14,372	3,437	53,169	148,656	68,768
Fund Balances - Beginning of Year	281,046	193,383	29,062	11,579	515,070	458,460
Equity Conveyed to Other Entities						(631)
Residual Equity Transfers (Out)	(5,792)	(23)		(10,453)	(16,268)	(9,290)
Increase (Decrease) in Reserve for Inventory of Materials and Supplies	(7)	23			16	(2,237)
Fund Balances - End of Year	$ 352,925	207,755	32,499	54,295	647,474	515,070

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2000
(In Thousands)

STATEMENT 1C

	GENERAL FUND		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	$ 314,570	309,968	4,602
Licenses, Permits and Franchises	22,233	20,622	1,611
Fines, Forfeitures and Penalties	27,406	25,669	1,737
Revenue from Use of Money and Property	24,970	14,558	10,412
Aid from Other Governmental Agencies:			
State	1,023,420	1,123,704	(100,284)
Federal	392,202	336,317	55,885
Other	35,638	38,095	(2,457)
Charges for Current Services	189,365	180,365	9,000
Other Revenue	25,052	46,358	(21,306)
Total Revenues	2,054,856	2,095,656	(40,800)
Expenditures:			
Current:			
General	153,280	200,407	47,127
Public Protection	668,762	716,349	47,587
Public Ways and Facilities	2,718	4,834	2,116
Health and Sanitation	371,069	422,656	51,587
Public Assistance	691,394	772,970	81,576
Education	404	444	40
Recreational and Cultural	11,649	13,653	2,004
Capital Outlay			
Debt Service	7,657	9,230	1,573
Total Expenditures	1,906,933	2,140,543	233,610
Excess of Revenues Over (Under) Expenditures	147,923	(44,887)	192,810
Other Financing Sources (Uses):			
Sale of Fixed Assets	900	650	250
Operating Transfers In	2,989	2,976	13
Operating Transfers (Out)	(166,336)	(174,541)	8,205
Encumbrances, Beginning of Year	56,092	56,092	
Total Other Financing Sources (Uses)	(106,355)	(114,823)	8,468
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	41,568	(159,710)	201,278
Fund Balances - Beginning of Year	225,481	225,481	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(5,792)	(5,792)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	(7)		(7)
Fund Balances - End of Year	$ 261,250	59,979	201,271

See Notes to General Purpose Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2000
(In Thousands)

STATEMENT 1C (Cont)

	SPECIAL REVENUE FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	$ 27,522	51,474	(23,952)
Licenses, Permits and Franchises	9,563	8,298	1,265
Fines, Forfeitures and Penalties	2,002	902	1,100
Revenue from Use of Money and Property	16,459	6,330	10,129
Aid from Other Governmental Agencies:			
State	43,454	44,437	(983)
Federal	60,697	79,782	(19,085)
Other	8,486	5,584	2,902
Charges for Current Services	18,381	24,477	(6,096)
Other Revenue	3,545	17,824	(14,279)
Total Revenues	190,109	239,108	(48,999)
Expenditures:			
Current:			
General	1,529	1,836	307
Public Protection	17,446	26,443	8,997
Public Ways and Facilities	82,956	142,465	59,509
Health and Sanitation	22,644	25,835	3,191
Public Assistance	55,533	76,208	20,675
Education	15,089	17,392	2,303
Recreational and Cultural	2,540	5,998	3,458
Capital Outlay			
Debt Service			
Total Expenditures	197,737	296,177	98,440
Excess of Revenues Over (Under) Expenditures	(7,628)	(57,069)	49,441
Other Financing Sources (Uses):			
Sale of Fixed Assets	165		165
Operating Transfers In	4,570	8,505	(3,935)
Operating Transfers (Out)	(8,371)	(11,449)	3,078
Encumbrances, Beginning of Year	24,938	24,938	
Total Other Financing Sources (Uses)	21,302	21,994	(692)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	13,674	(35,075)	48,749
Fund Balances - Beginning of Year	168,602	168,602	
Equity Conveyed to Other Entities	-		
Residual Equity Transfers (Out)	(23)	(23)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	23		23
Fund Balances - End of Year	$ 182,276	133,504	48,772

See Notes to General Purpose Financial Statements (Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS ALL GOVERNMENTAL FUND TYPES Year Ended June 30, 2000 (In Thousands)

STATEMENT 1C (Cont)

	DEBT SERVICE FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	$ 703	333	370
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties			
Revenue from Use of Money and Property	74	53	21
Aid from Other Governmental Agencies:			
State			
Federal			
Other	4,036	4,024	12
Charges for Current Services			
Other Revenue			
Total Revenues	4,813	4,410	403
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay			
Debt Service	49,165	49,227	62
Total Expenditures	49,165	49,227	62
Excess of Revenues Over (Under) Expenditures	(44,352)	(44,817)	465
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	44,536	44,732	(196)
Operating Transfers (Out)			
Encumbrances, Beginning of Year			
Total Other Financing Sources (Uses)	44,536	44,732	(196)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	184	(85)	269
Fund Balances - Beginning of Year	1,054	1,054	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	$ 1,238	969	269

See Notes to General Purpose Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS ALL GOVERNMENTAL FUND TYPES Year Ended June 30, 2000 (In Thousands)

STATEMENT 1C (Cont)

	CAPITAL PROJECTS FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	$ 1,598	8,443	(6,845)
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties	6,827	7,392	(565)
Revenue from Use of Money and Property	3,059	2,496	563
Aid from Other Governmental Agencies:			
State	3,601	9,921	(6,320)
Federal	2,069	5,685	(3,616)
Other	1,385	1,691	(306)
Charges for Current Services	1,652	3,558	(1,906)
Other Revenue	178	941	(763)
Total Revenues	20,369	40,127	(19,758)
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay	53,626	143,262	89,636
Debt Service			
Total Expenditures	53,626	143,262	89,636
Excess of Revenues Over (Under) Expenditures	(33,257)	(103,135)	69,878
Other Financing Sources (Uses):			
Sale of Fixed Assets	212	7,496	(7,284)
Operating Transfers In	84,411	114,215	(29,804)
Operating Transfers (Out)	(51,271)	(51,631)	360
Encumbrances, Beginning of Year	49	49	
Total Other Financing Sources (Uses)	33,401	70,129	(36,728)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	144	(33,006)	33,150
Fund Balances - Beginning of Year	(211)	(211)	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	$ (67)	(33,217)	33,150

See Notes to General Purpose Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS ALL GOVERNMENTAL FUND TYPES Year Ended June 30, 2000 (In Thousands)

STATEMENT 1C (Cont)

	TOTALS (MEMORANDUM ONLY)		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	$ 344,393	370,218	(25,825)
Licenses, Permits and Franchises	31,796	28,920	2,876
Fines, Forfeitures and Penalties	36,235	33,963	2,272
Revenue from Use of Money and Property	44,562	23,437	21,125
Aid from Other Governmental Agencies:			
State	1,070,475	1,178,062	(107,587)
Federal	454,968	421,784	33,184
Other	49,545	49,394	151
Charges for Current Services	209,398	208,400	998
Other Revenue	28,775	65,123	(36,348)
Total Revenues	2,270,147	2,379,301	(109,154)
Expenditures:			
Current:			
General	154,809	202,243	47,434
Public Protection	686,208	742,792	56,584
Public Ways and Facilities	85,674	147,299	61,625
Health and Sanitation	393,713	448,491	54,778
Public Assistance	746,927	849,178	102,251
Education	15,493	17,836	2,343
Recreational and Cultural	14,189	19,651	5,462
Capital Outlay	53,626	143,262	89,636
Debt Service	56,822	58,457	1,635
Total Expenditures	2,207,461	2,629,209	421,748
Excess of Revenues Over (Under) Expenditures	62,686	(249,908)	312,594
Other Financing Sources (Uses):			
Sale of Fixed Assets	1,277	8,146	(6,869)
Operating Transfers In	136,506	170,428	(33,922)
Operating Transfers (Out)	(225,978)	(237,621)	11,643
Encumbrances, Beginning of Year	81,079	81,079	
Total Other Financing Sources (Uses)	(7,116)	22,032	(29,148)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	55,570	(227,876)	283,446
Fund Balances - Beginning of Year	394,926	394,926	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(5,815)	(5,815)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	16		16
Fund Balances - End of Year	$ 444,697	161,235	283,462

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES Year Ended June 30, 2000 With Comparative Figures for Year Ended June 30, 1999 (In Thousands)

STATEMENT 1D

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	2000	1999
Operating Revenues:				
Charges for Services	$ 40,030	202,167	242,197	142,750
Operating Expenses:				
Salaries	3,788	21,773	25,561	3,560
Claims and Judgments		22,398	22,398	1,958
Cost of Materials		45,119	45,119	59,141
Repairs and Maintenance	827	13,574	14,401	4,618
Fuel		4,062	4,062	2,817
Equipment Rental	555	989	1,544	544
Sewage Processing	10,975		10,975	13,964
Contracted Services	13,204	52,501	65,705	12,858
Depreciation	2,779	7,117	9,896	7,240
Utilities	195	14,951	15,146	212
Other	3,035	11,646	14,681	5,213
Total Operating Expenses	35,358	194,130	229,488	112,125
Operating Income (Loss)	4,672	8,037	12,709	30,625
Nonoperating Revenues:				
Interest	3,392	2,554	5,946	5,478
Taxes	26		26	27
Grants	722		722	1,049
Gain on Disposal of Equipment		58	58	
Other	83		83	111
Total Nonoperating Revenues	4,223	2,612	6,835	6,665
Nonoperating Expenses:				
Interest on Long-Term Debt	14	561	575	403
Loss on Disposal of Equipment	1,875	411	2,286	205
Other				314
Total Nonoperating Expenses	1,889	972	2,861	922
Nonoperating Income (Loss)	2,334	1,640	3,974	5,743
Net Income (Loss) Before Operating Transfers	7,006	9,677	16,683	36,368
Operating Transfers In		10,527	10,527	260
Operating Transfers (Out)	(228)	(2,369)	(2,597)	(1,472)
Net Income (Loss)	6,778	17,835	24,613	35,156
Depreciation on Grant Funded Fixed Assets	446		446	422
Increase (Decrease) in Retained Earnings	7,224	17,835	25,059	35,578
Retained Earnings:				
Beginning Balance	82,350	(459)	81,891	46,313
Retained Earnings Ending Balance	$ 89,574	17,376	106,950	81,891

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 2000
With Comparative Figures for June 30, 1999
(In Thousands)

STATEMENT 1E

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	2000	1999
Cash Flows from Operating Activities:				
Operating Income (Loss)	$ 4,672	8,037	12,709	30,625
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities:				
Depreciation	2,779	7,117	9,896	7,240
Decrease (Increase) in Accounts Receivable and Notes Receivable, Net	501	(485)	16	(341)
Decrease (Increase) in Prepaid Expense				33
Decrease (Increase) in Due from Other Funds	(705)	(5,830)	(6,535)	(1,628)
Decrease (Increase) in Inventory of Materials and Supplies, Net	(9)	(126)	(135)	290
Increase (Decrease) in Accounts Payable	(1,018)	7,381	6,363	1,326
Increase (Decrease) in Accrued Payroll	20		20	14
Increase (Decrease) in Due to Other Funds	1,962	6,281	8,243	(7,414)
Increase (Decrease) in Due to Other Governments	(1,339)		(1,339)	(298)
Increase (Decrease) in Long-Term Debt Payable		(4,044)	(4,044)	(19,136)
Increase (Decrease) in Deferred Revenue	(358)	1,503	1,145	234
Other Revenue	109		109	134
Net Cash Provided (Used) by Operating Activities	6,614	19,834	26,448	11,079
Cash Flows from Non-Capital Financing Activities:				
Advances Made on Long-Term Loans		183	183	159
Grants	(1,209)		(1,209)	1,519
Transfers from (to) Other Funds	(228)	8,158	7,930	(1,115)
Residual Equity Conveyed to Other Entities				(27)
Loans from (to) Other Funds	(1,036)	12,000	10,964	(97)
Net Cash Provided (Used) by Non-Capital Financing Activities	(2,473)	20,341	17,868	439
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Fixed Assets	(2,998)	(17,548)	(20,546)	(13,148)
Proceeds from Sale of Equipment	2	678	680	548
Grants	1,934		1,934	1,320
Principal Paid on Long-Term Debt	(24)	(3,776)	(3,800)	(2,094)
Interest Paid on Long-Term Debt	(14)	(528)	(542)	(295)
Residual Equity Transfers In		17,590	17,590	10,564
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,100)	(3,584)	(4,684)	(3,105)
Cash Flows from Investing Activities:				
Interest	3,063	2,305	5,368	5,425
Net Increase (Decrease) in Cash and Cash Equivalents	6,104	38,896	45,000	13,838
Cash and Cash Equivalents-Beginning of Year	55,426	67,748	123,174	109,336
Cash and Cash Equivalents-End of Year	$ 61,530	106,644	168,174	123,174
Noncash Investing, Capital Financing Activities:				
Acquisition of Fixed Assets	$ 749		749	557
Transfer Fixed Assets from(to) General Fixed Assets/Other Funds		5,573	5,573	750
Fixed Asset acquisition through Capital Lease		2,418	2,418	8,738
Fixed Asset write-off	(1,856)		(1,856)	(380)
Assumption of Capital Lease From General Long-Term Debt		365	365	
Accrued Interest	971	396	1,367	1,076
Residual Equity Transfer From General Fund		-	-	1,322
Total Noncash Investing Capital Financing Activities	$ (136)	8,752	8,616	12,063

See Notes to General Purpose Financial Statements

PENSION TRUST FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2000
With Comparative Figures for Year Ended June 30, 1999
(In Thousands)

STATEMENT 1F

	TOTALS	
	2000	1999
ADDITIONS:		
Contributions:		
Employer	$ 38,167	36,420
Plan Members	8,359	7,400
Total Contributions	46,526	43,820
Investment Income:		
Net Appreciation (Depreciation)		
in Fair Market Value of Investments	420,965	277,371
Interest Income	105,053	71,856
Other Income	38,366	46,821
Total Investment Income	564,384	396,048
Total Additions	610,910	439,868
DEDUCTIONS:		
Benefits	142,565	129,603
Refunds of Contributions	976	998
Administrative Expense	5,318	4,831
Total Deductions	148,859	135,432
Net Increase (Decrease)	462,051	304,436
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	3,810,555	3,506,119
End of Year	$ 4,272,606	3,810,555

See Notes to General Purpose Financial Statements

INVESTMENT TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2000
With Comparative Figures for Year Ended June 30, 1999
(In Thousands)

STATEMENT 1G

	TOTALS	
	2000	1999
ADDITIONS:		
Contributions on Pooled Investments	$ 10,339,734	9,544,662
Interest and Investment Income	62,208	85,515
Total Additions	10,401,942	9,630,177
DEDUCTIONS:		
Distribution from Pooled Investments	10,154,935	9,572,603
Net Increase (Decrease)	247,007	57,574
Net Assets Held in Trust for Pool Participants:		
Beginning of Year	1,071,074	1,013,500
End of Year	$ 1,318,081	1,071,074

See Notes to General Purpose Financial Statements

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Diego (the "County") conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of the more significant of such policies.

A. THE FINANCIAL REPORTING ENTITY

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units. The component units, discussed in Note 1B are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES

Blended component units are listed below. The first seven component units are legally separate entities which are governed by the San Diego County Board of Supervisors and are reported as if they were part of the primary government because they benefit the County exclusively. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. SANCAL is reported as if it was part of the primary government because its sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. Separate financial statements for the individual component units described above may be obtained from the County Chief Financial Officer/Auditor and Controller.

The first five entities listed below are included as special revenue funds, the sanitation districts as enterprise funds, and the Redevelopment Agency as a capital project fund and debt service fund. SANCAL is included as a special revenue fund, capital project fund and debt service fund. SDCERA is included as a pension trust fund.

County Service Areas
Flood Control Districts
Lighting Maintenance Districts
Air Pollution Control District
County of San Diego Housing Authority
Sanitation Districts
San Diego County Redevelopment Agency
San Diego County Capital Asset Leasing Corporation
San Diego County Employees' Retirement Association

C. BASIS OF PRESENTATION

The financial transactions of the County are recorded in individual funds and account groups. The various funds and account groups are reported by type in the financial statements. Amounts in the "Totals-Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line-items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals-Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the County.

The County uses the following fund categories, fund types, and account groups:

Governmental Fund Types

General Fund - To account for all financial resources except those required to be accounted for in another fund. The general fund is the County's operating fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included in these funds are the general funds of various component entities as described in Note 1B.

Debt Service Fund - To account for the accumulation of resources for the payment of principal and interest on general long-term debt.

Capital Project Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Proprietary Fund Types

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - To account for the financing of goods or services provided by one department to other departments of the County, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds – To account for assets held by the County as a trustee or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust fund (San Diego County Employees' Retirement Association), investment trust fund and agency funds.

Account Groups

General Fixed Assets Account Group - To account for all fixed assets of the County, except those accounted for in the proprietary-fund types.

General Long-Term Debt Account Group - To account for all long-term obligations of the County, except those accounted for in the proprietary-fund types.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues which are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund and the investment trust fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

E. PROPERTY TAXES

Real property taxes are levied on October 15 against owners of record on the lien date (January 1). The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. At January 1 all property is subject to lien for unpaid taxes. Secured (real) property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. Delinquent secured property taxes for all taxing jurisdictions are held in an agency fund.

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Investments in County funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in Pooled Cash and Investments," "Collections in Transit," and "Imprest Cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse repurchase agreements are not considered cash equivalents for purposes of cash flow reporting.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds of the County Library and Special Districts as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group (GFAAG). The County has elected not to capitalize interest costs during the construction phase for assets capitalized in the GFAAG but does capitalize such interest, net of interest earned on invested proceeds over the same period, for assets capitalized in proprietary funds. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation.

Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

Structure and Improvements	5-50 years
Equipment	4-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $65.5 million for the governmental fund types as of June 30, 2000, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation/Designation of Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Comparative Data/Totals-Memorandum Only

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. Also, certain of the prior year amounts have been reclassified to conform with the current year financial statement presentations.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for this entity are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Departmental intrafund expenditure transfers do not have the budgetary status of legal appropriations. Therefore, variances between estimated transfers and actual transfers are not displayed in the general purpose financial statements, but are displayed as a general fund schedule within the Comprehensive Annual Financial Report. All amendments to the adopted budget require Board approval and, as such, reported budget figures are as originally adopted or subsequently amended by the Board. Supplemental appropriations during the year ended June 30, 2000, amounted to $240.1 million in the general fund.

B. BUDGETARY TO GAAP BASIS RECONCILIATION

The following schedule is a reconciliation of the budgetary and GAAP fund balances (In Thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Fund Balance-Budgetary Basis	$261,250	182,276	1,238	(67)
Encumbrances Outstanding at Year-End	91,888	24,051		41
Fair Value Change in Investments	(213)	432	(4)	(29)
Fund Balances-Non Budgeted Funds		996	31,265	54,350
Fund Balances - GAAP Basis	$352,925	207,755	32,499	54,295

C. FUNDS DEFICITS

The following funds have an accumulated deficit at June 30, 2000 (In Thousands):

Capital Projects Funds		
San Diego County Redevelopment Agency (SDCRA)	$	2,494
Enterprise Funds		
Transit	$	8
Internal Service Funds		
Risk financing	$	11,319

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit within the Transit fund is due to inadequate cost recovery from user fees and the recognition of fair value changes in the value of investments. This deficit will be reduced in future years as securities mature and user fees are adjusted to cover costs. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. This deficit is expected to be reduced over a 10 year period beginning July 1, 1997, through increased rates to County departments and reduced claim experience through increased risk management.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. EQUITY IN POOLED CASH AND INVESTMENTS, CASH, INVESTMENTS, AND OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS

The County maintains a cash and investment pool that is available for use by all funds of the County as well as the funds of other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743.

Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the general fund of the County. Such interest has been recorded as revenue in the general fund.

"Cash with Fiscal Agents," represents amounts on deposit with trustees for the SANCAL, San Diego County Housing Authority, SDCERA, County revolving funds, and for repayment of General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Waste Site Management Fund investments, the Pension Trust Fund investments and bonds held for other agencies.

Deposits: At year-end the carrying amount of the County's deposits was $527,430,000 and the balance per various financial institutions was $527,415,000. Of the balance in financial institutions, $986,000 was covered by federal deposit insurance and $526,429,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount $269,032,000 was held by the County or its agent in the County's name and $257,397,000 was held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end (In Thousands). Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by counterparty's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2000. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

	Category		Fair Value
(In Thousands)	1	3	
Investments - Categorized			
Bankers Acceptances	$	51,980	51,980
Repurchase Agreements	330,000	1,101	331,101
Commercial Paper	670,202		670,202
U.S. Government Securities	1,042,145		1,042,145
Negotiable certificates of deposit	380,025		380,025
Corporate notes	132,876		132,876
Corporate bonds	482,952	152,984	635.936
Common and preferred stock	2,793,484		2,793,484
Investments held by the County for other agencies:			
U.S. Government Securities	106		106
Corporate bonds	33		33
Common Stock	2		2
Corporate Notes			-
Subtotal	5,831,825	206,065	6,037,890
Investments - Not Categorized			
Investments held by broker dealers under securities loans:			
U.S. Government securities			14,177
Corporate bonds			85,044
Common and preferred stock			106,844
Mutual Funds			56,574
Real Estate Equity			304,322
TOTAL INVESTMENTS			$ 6,604,851

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are involuntary pool participants in the County Treasurer's investment pool and represent 93.7 percent of the total pooled cash and investments on hand at June 30, 2000.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2000.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities can not be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

B. RESTRICTED ASSETS-INVESTMENTS

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Waste Site Special Revenue Fund.

C. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 2000.

Sources of Investment in General Fund Assets
By Fund at June 30, 2000
(In Thousands)

General Fund:	
General Fund Revenues	$1,161,799
Federal and State Grants	1,751
Special Revenue Funds:	
Special Revenue Fund Revenues	72,647
Special Revenue State & Fund Revenues	65
Capital Projects Funds:	
Lease Revenue Bonds	174
Certificates of Participation	272
Total	$1,236,708

Summary of Changes in General Fixed Assets by Class
For the Year Ended June 30, 2000
(In Thousands)

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$194,289	23,564	780	217,073
Structures & Improvements	559,047	18,435	44,763	532,719
Equipment	102,304	17,708	57,468	62,544
Construction in Progress	418,313	25,442	19,383	424,372
Total	$1,273,953	85,149	122,394	1,236,708

D. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 2000 (In Thousands):

	Enterprise	Internal Service
Land	$7,491	
Structures & Improvements	90,501	3,475
Equipment	11,921	81,426
Construction in Progress	3,558	
Total	113,471	84,901
Less Accumulated Depreciation	43,085	37,990
Net	$ 70,386	46,911

E. LEASE COMMITMENTS

The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows (In Thousands):

Fiscal Year	Minimum Payments
2000/01	$6,186
2001/02	5,898
2002/03	5,031
2003/04	3,883
2004/05	3,545
Thereafter	19,264
Total	$43,807

Total rental expense for all real property operating leases for the year ended June30, 2000, was approximately $18.4 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2000, was approximately $14.3 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the General Fixed Asset Account Group and is reflected as a liability in the General Long-Term Debt Account Group. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

Capital Lease Property Class	June 30, 2000 (In Thousand)
Structures and Improvements	$47,564
Equipment	34,270
Total	$81,834

Future minimum lease payments under capital leases consisted of the following at June 30, 2000 (In Thousands):

Fiscal Year	Minimum Lease Payment
2000/01	$10,086
2001/02	9,503
2002/03	9,326
2003/04	8,995
2004/05	8,888
Thereafter	78,830
Total Minimum Lease Payments	125,628
Less: Amount Representing Interest	(43,794)
Net Lease Payments	$81,834

F. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 2000, consists of certificates of participation, capital lease obligations (See Note 3E), pension obligation bonds, contracts/loans payable, revenue bonds, arbitrage rebate, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1991 Certificates of Participation issued September, 1991	4.80-6.50%	2007	$38,045	$22,615
1993 Certificates of Participation issued March, 1993	3.00-5.75%	2013	7,640	6,040
1993 Certificates of Participation issued March, 1993	3.25-5.10%	2007	26,085	16,465
1993 Certificates of Participation issued May, 1993	2.50-5.625%	2012	203,400	136,660
1996 Certificates of Participation issued May, 1996	4.30-5.50%	2018	52,230	48,845
1996 Certificates of Participation issued December, 1996	4.00-6.00%	2019	37,690	36,630
1997 Certificates of Participation issued June, 1997	4.00-4.80%	2004	28,035	17,575
1997 Certificates of Participation issued July, 1997	4.00-5.00%	2025	80,675	77,425
1998 Certificates of Participation issued January, 1999	4.00-4.94%	2022	73,115	68,095
1999 Certificates of Participation issued September, 1999	3.60-4.75%	2009	15,010	15,010
2000 Certificates of Participation issued May, 2000	4.50-5.125%	2010	51,620	51,620
2000 Certificates of Participation Issued May, 2000	4.00%	2021	19,000	19,000
Total Certificates of Participation			632,545	515,980

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego Regional Building Authority				
Lease beginning October, 1991	4.60-6.363%	2019	$ 46,965	$ 40,115
Third Party Financing Leases:				
Motorola Corporation				
Lease beginning December, 1995	5.65%	2011	39,772	32,008
Others				
Various beginning dates from				
December, 1991 to the present	4.24-8.00%	2000-2008	14,100	9,711
Total Capitalized Leases			100,837	81,834
Other Long-Term Obligations:				
Calif. Integrated Waste Mgmt Board				
Loans beginning December, 1995	5.83-5.87%	2016	1,260	1,120
Taxable Pension Obligation Bonds				
Series A	4.7-6.60%	2007	430,430	347,305
Revenue Bonds				
Redevelopment Agency Series 1995	4.75-6.75%	2020	5,100	4,870
Total Other Long-Term Obligations			1,170,172	951,109
Arbitrage Rebate				16
Accumulated Unpaid Employee				
Leave Benefits				65,479
Landfill Closure				101,000
Total General Long-Term Debt				$1,117,604

The certificates of participation of the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 2000, are summarized as follows (In Thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Lease Revenue Bonds/Certificates Of Participation	$473,818	85,630	43,468	515,980
Capital Lease Obligations	85,602	1,654	5,422	81,834
Contracts/Loans Payable	1,190		70	1,120
Pensions Obligation Bonds	373,220		25,915	347,305
Redevelopment Agency	4,960		90	4870
Arbitrage Rebate	-	16		16
Accumulated Unpaid Employee Leave Benefits	62,245	234		65,479
Inactive Landfill Closure	101,000			101,000
Total	$1,105,035	87,534	74,965	1,117,604

The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 2000 (In Thousands). Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to timing of payments.

Fiscal Years Ending June 30	Certificates Of Participation	Capital Leases	Other Long-Term Obligations	Pension Obligation Bonds	Redevelop-Ment Agency	Total
2001	$59,952	10,086	136	51,195	411	121,780
2002	60,855	9,504	131	53,753	420	124,663
2003	60,709	9,326	128	56,448	424	127,035
2004	59,030	8,995	123	59,270	422	127,840
2005	55,380	8,888	119	62,237	424	127,048
2006-2010	226,659	39,832	534	160,034	2,143	429,202
2011-2015	104,452	21,532	432		2,174	128,590
2016-2020	69,831	17,465	74		2,207	89,577
2021-2025	34,546				445	34,991
2026	5,299					5,299
Total	$736,713	125,628	1,677	442,937	9,070	1,316,025

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds/certificates of participation (COPs) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2000, $70.3 million of bonds/COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

San Diego County Capital Asset Leasing Corporation (SANCAL)

On September 1, 1999, SANCAL issued $15 million in Certificates of Participation (COP) with an average interest rate of 4.50 percent to advance refund $24.4 million of COP issued by SANCAL in 1989 for the East Mesa Project. The COP issued by the Corporation were secured by a long-term capital lease between the County and the Corporation with an average interest rate of 6.8 percent. The net proceeds of $14.6 million (less $22,489 in bond discount and after payment of $365,763 for bond insurance, underwriting fees and other issuance costs), were used to purchase the par value of $15.9 million in US government securities and to fund certain reserves for the COP. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the respective debt issue cited above. As a result, the SANCAL 1989 COP are considered defeased. The liability for those COP issued by SANCAL and the long-term capital lease between the County and the Corporation have been removed from the general long-term debt account group.

SANCAL advance refunded SANCAL's 1989 COP to achieve short-term budgetary savings to the County and to reduce the total debt service payments over the next 20 years by approximately $1.4 million and to obtain an economic gain (difference between the present values on the old and new debt) of approximately $.9 million.

New Issues

San Diego County Capital Asset Leasing Corporation (SANCAL):

San Pasqual Academy Project

On May 1, 2000, SANCAL issued $19 million in Certificates of Participation (COP) using a variable interest rate with a maximum interest rate of 12%, and maturities from 2001 to 2021. COP proceeds of $18.9 million, net of $.1 million of underwriter's discount are being used to finance site acquisition and buildings, structures and improvements of the San Pasqual Academy Project.

Information Technology System Financing

On May 1, 2000, SANCAL issued $51.6 million in Certificates of Participation (COP) with an average coupon interest rate of 4.9%, with maturities from 2001 to 2010. COP proceeds of $51.2 million, net of $.4 million of bond discounts are being used to finance the acquisition and installation of servers and software for the implementation of an Information Technology System.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post-closure costs for these landfills, to include facilities maintenance and groundwater monitoring over a 30 year period, are estimated at $101 million in current year costs. This amount has been recorded in the general long-term debt account group. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

G. PROPRIETARY FUND TYPES LONG-TERM DEBT

Proprietary fund types long-term debt consists of revenue bonds, loans payable, capital leases, contracts payable, and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the district without limit as to rate or amount for the purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of Proprietary Fund Types Long-Term Debt is as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/2000
Revenue Bonds:				
Alpine Sanitation 1970A	6.70-7.00%	2001	$285	$45
Loans:				
Julian Sanitation	5.3%	2003	61	13
Capital Leases:				
Mail/Print/Records ISF:				
Koch Financial	4.73%	2002	166	87
Pitney Bowes	4.33-4.62%	2003	304	184
Fleet ISF:				
Koch Financial	4.88-5.63%	2002	5,803	1,041
Pitney Bowes	4.22-4.87%	2004	11,101	8,860
GECPAC	5.35-7.05%	2001	387	114
Total			18,107	10,344
Contract Payable Spring Valley				343
Long-Term Claims Payable - Risk Financing ISF				59,523
Unpaid Accumulated Employee Leave Benefits				2,074
Total Proprietary Fund Types Long-Term Debt				$72,284

The following is a schedule of debt service requirements to maturity, including interest, for Proprietary Fund Types Revenue Bonds, Loans and Capital Leases outstanding at June 30, 2000. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Long term claims payable are also excluded since they are based on estimates which are uncertain as to the probable date of payment (In Thousands):

Year Ending June 30	Revenue Bonds	Loans	Capital Leases	Total
2001	$22	5	4,086	4,113
2002	26	4	3,269	3,299
2003		5	2,785	2,790
2004			844	844
Total	$48	14	10,984	11,046

H. SPECIAL ASSESSMENT DEBT

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is $19.9 million at June 30, 2000.

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 2000 were (In Thousands):

	Due From Other Funds	Due To Other Funds
General Fund:	$ 153,651	19,046
Special Revenue Funds:		
Road Fund	3,626	936
Inactive Waste Site	213	101
Lighting District	41	24
Air Pollution District	277	63
County Library Fund	185	114
Asset Forfeiture Program Fund	58	-
Inmate Welfare Program	188	191
HCD	37	4,550
Cable TV Fund	24	106
Park Land Dedication Fund	94	97
County Service Area Funds	276	716
Flood Control District Funds	148	135
Housing Authority Fund	215	627
Other Special District Funds	4	94
Total Special Revenue Funds	5,386	7,754
Debt Service Funds:		
Pension	$13	-
Nonprofit Corporation Funds	2	-
Redevelopment Agency Funds	16	5
Total Debt Service Funds	31	5
Capital Projects Funds:		
Capital Outlay Funds	3,290	2,492
Edgemoor Development Fund	5	10
Nonprofit Corporation Funds	289	2,937
Redevelopment Agency Funds	29	31
Total Capital Projects Funds	3,613	5,470

	Due From Other Funds	Due To Other Funds
Enterprise Funds:		
Airport Fund	137	205
Liquid Waste Fund	637	58
Transit Fund	474	1,690
Sanitation Districts	838	451
Total Enterprise Funds	2,086	2,404
Internal Service Funds:		
Road & Communication Funds	516	841
Purchasing Funds	1,196	581
Risk Financing	1,420	2,220
Fleet Services	835	1,027
Mail, Print, Records	262	355
Facilities Management	2,787	1,830
Information Technology	6,724	12,610
Other Miscellaneous Funds	19	99
Total Internal Service Funds	13,759	19,563
Trust and Agency Funds:		
Pension Trust Funds	1,289	4
Property Tax Collection Funds	2,942	7,215
Investment Trust Fund	10,861	40,472
County Departmental Funds	5,426	17,364
Special Purpose Funds	3,604	83,351
Total Trust & Agency Funds	24,122	148,406
Total Due To - Due From	$ 202,648	202,648

General Fund:	$689	
Special Revenue Funds:		
County Service Area Funds		311
Flood Control District Funds	157	
Total Special Revenue Funds	157	311
Debt Service Funds:		
Nonprofit Corporation Funds	508	
Redevelopment Agency Funds		287
Total Debt Service Funds	508	287
Capital Projects Funds:		
Redevelopment Agency Funds		4,430
Total Capital Projects Funds		4,430
Enterprise Funds:		
Airport Fund	3,736	
Sanitation Districts Fund	135	331
Total Enterprise Funds	3,871	331
Internal Service Funds:		
Special District Loans Funds	134	
Total Internal Services Funds	134	
Total Advances To-Advances From	$5,359	5,359

J. RESIDUAL EQUITY TRANSFERS

Residual equity transfers consisted primarily of transfers from the General Fund and Library Fund to the Fleet Internal Service Fund (ISF) in the amounts of $5.8 million and $23 thousand respectively, and from SANCAL to the Information Technology ISF in the amount of $10.5 million. Total residual equity transfers in do not equal total residual equity transfers out because the $5.8 million is recorded as an addition to contributed capital in the Fleet ISF and the $10.5 million is recorded as an addition to contributed capital in the Information Technology ISF.

K. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains three Enterprise Funds which provide airport, liquid waste, and transit services. Segment information for the year ended June 30, 2000, for those funds and six sanitation districts for which the Board of Supervisors has oversight responsibility was as follows (In Thousands):

	Airport	Liquid Waste	Transit	Sanitation District	Totals
Operating Revenue	$5,984	4,029	11,203	18,814	40,030
Depreciation	778	15	446	1,540	2,779
Operating Income (Loss)	215	303	(593)	4,747	4,672
Tax Revenue	-	-	-	26	26
Grant Revenue	722	-	-	-	722
Other Nonoperating Revenue	309	170	164	2,832	3,475
Nonoperating Expenses	10	9	-	1,870	1,889
Nonoperating Income or (Loss)	1,021	161	164	988	2,334
Net Income or (Loss)	1,158	339	(429)	5,710	6,778
Capital Contributions	-	-	1,934	749	2,683
Plant, Property and Equipment:					
Additions	557	-	1,934	1,239	3,730
Deletions	27	39	-	1,890	1,956
Net Working Capital	8,302	1,298	(8)	54,768	64,360
Total Assets	29,966	1,520	8,217	99,863	139,566
Total Equity	29,452	1,179	4,740	98,659	134,030
Long-Term Liabilities	118	197	-	401	716

L. CONTRIBUTED CAPITAL

During fiscal year 1999/00, contributed capital increased or decreased by the following amounts (In Thousands):

Enterprise Funds

SOURCE	Airport	Liquid Waste	Transit	Sanitation Districts
Capital Grants	$		1,934	
Developer's Contributions				749
Government's Contributions				
Total Additions (Reductions)			1,934	749
Accumulated Depreciation on Grant Funded Fixed Assets			(6,036)	
Contributed Capital, July 1	15,922	695	8,850	22,342
Contributed Capital, June 30	$15,922	695	4,748	23,091

Internal Service Funds

Source	Road and Commun. Equip.	Purchasing	Spec. Dist. Loans	Fleet	Mail/ Print Records	Facilities Mgmnt	Infor. Tech.	Other Misc.
Governments' contributions Total Additions (Reductions)	$	18	2	10,984	8	186	10,453	
Contributed Capital, July 1	9,541	1,171	902	23,615	575	-	-	4
Contributed Capital, June 30	$ 9,541	1,189	904	34,599	583	186	10,453	4

4. OTHER NOTE DISCLOSURES

A. COMMITMENTS AND CONTINGENCIES

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4C, the County has a potential liability of $27 to $29 million that could result if unfavorable final decisions were rendered in numerous law-suits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2000.

The amount of the potential liability of $27 to $29 million stated above decreased from last year's amount of $67 to $123 million. This decrease, for the most part, was due to the decrease in the potential liability related to three petitions for writ of mandate filed against SDCERA (and the County of San Diego as real party in interest) seeking recalculation of retirement benefits. A Superior Court ruling significantly reduced the estimated impact of the case and reduced the potential liability from the range of $50-100 million to $5 million.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $91.0 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or General Long-Term Debt Account Group as described in Note 1F.

(3) Tax and Revenue Anticipation Notes

At June 30, 2000 $130 million of Tax and Revenue Anticipation Notes issued during fiscal year 1999/00 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 2000, and subsequently used to redeem the notes on September 29, 2000. On July 5, 2000, the County issued $175 million of Tax and

Revenue Anticipation notes to finance fiscal year 2000/01 General Fund cash flow requirements. The issues will be redeemed on October 4, 2001.

(4) Teeter Obligation Commercial Paper Notes

From November 1995 through June 2000, the County issued $62.7 million in taxable and $185.1 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 2000, the outstanding balances of CP were $11.7 and $59.9 million for taxable and tax-exempt notes, respectively.

(5) Third Party Debt

Mortgage Revenue Bonds

Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and December 1999, the County issued $43.6 million of Mortgage Revenue Bonds of which $35.7 million were still outstanding as of June 30, 2000.

Certificates of Participation

Beginning in April 1998, $112 million in Certificates of Participation have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue $15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue $51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered a lease agreement with the San Diego Museum of Art to issue $6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue $15 million of COPs to finance the acquisition, construction and equipping of certain research facilities. As of June 30, 2000, $198.1 million of such COPs are still outstanding.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued $3.5 million of Industrial Development Revenue Bonds in October 1987 of which $2.4 million were still outstanding as of June 30, 2000.

Mortgage Revenue Bonds, Certificates of Participation and Industrial Development Revenue Bonds as described above, together with interest thereon, are limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, and irrevocable surety bonds. In the opinion of County officials, these bonds are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the General Long-Term Debt Account Group.

(6) Federal Programs

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 1999, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(7) SDCERA

SDCERA is party to managed future contracts, financial instruments with off-balance sheet risk, to generate earnings and to hedge the investments in fixed income securities and common stocks, thereby reducing its own exposure to fluctuations in market conditions. These contracts include, but are not limited to contracts for delayed delivery of securities, commodities or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter parties to meet the terms of their contract. The risk of accounting loss from this off-balance sheet financial instrument includes credit risk and the possibility that future changes in market prices may make such a financial instrument less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling $56 million.

(8) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond resolutions. The proceeds from these issues are deposited with financial institutions as guaranteed investment contracts in accordance with the provisions of the bond resolution and contractual relationships between the Treasurer and these financial institutions. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County reporting entity and are not held in the County's external investment pool. The County has no liability with respect to these issues.

B. <u>RISK MANAGEMENT</u>

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and workers' compensation. The County purchases insurance for property damage, certain casualty claims, and loss of money up to $10,000 per selected site locations. In July 1999, the public officials bond covering employee dishonesty and faithful performance was increased to a $10 million limit. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability portion of total risk liability at June 30, 2000. For the workers compensation portion of total risk liability, the actuarial evaluation from June 30, 1999 was used with an estimate for changes since that date. The actuarial estimate was based partially on the experience of similar governmental entities and included the effects of specific incremental claim adjustment expenses, salvage and subrogation if such factors could be estimated. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 2000, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $59.5 million, including $12.0 million in public liability and $47.5 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996/97. Changes in the balances of claim liabilities for fiscal year 1998/99 and 1999/00 were as follows (In Thousands):

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Balance at Claim Payments	Fiscal Year-End
1998/99	$84,257	$(3,902)	$(15,134)	$65,221
1999/00	65,221	19,151	(24,849)	59,523

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of $16,000 has been included in the General Long-Term Debt Account Group.

C. JOINT VENTURE

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one half of the total required funding each year. The County, by agreement, also provides one half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 1999/00 fiscal year were $353,997. The organization had a cumulative surplus of $147,012 at June 30, 2000. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

D. JOINTLY GOVERNED ORGANIZATIONS

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (the "Partnership"). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consists of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

E. SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM

(1) Plan Description

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1D and 1F, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 4.76%-12.48% for general members and 6.51%-14.40% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 1999/00 rates, expressed as a percentage of covered payroll, are - 1.36% for general members and 5.68% for safety members.

(4) Annual Pension Cost

For Fiscal Year 1999/00, there was no annual pension cost for the SDCERA pension plan due to amortization of negative unfunded actuarial accrued liabilities. The County made no contributions to the SDCERA pension plan since none were required. The zero required contribution was determined as part of the June 30, 1997, actuarial evaluation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return; (b) projected salary increases of 4.5%. Both (a) and (b) included an inflation component of 4.0%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed five year period.

(5) Schedule of Funding Progress (In Millions):
Required Supplementary Information Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
06/30/1998	$2,688.1	2,487.9	0	108.0%	$581.4	0%
06/30/1999	2,834.5	2,677.5	0	105.9%	599.8	0%
06/30/2000	3,211.9	2,990.1	0	107.4%	642.8	0%

(6) Three-Year Trend Information (In Thousands):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/1998	$24,320	100%	0
06/30/1999	0	100%	0
06/30/2000	0	100%	0

(7) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with $19.8 million that can only be used to pay retirement health benefits.

Approximately 8,200 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $9.0 million for fiscal year 1999/00. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $135.7 million at June 30, 2000, a $3.7 million increase from the previous fiscal year.

(8) Equity and Bond Swaps and Futures Contracts:

SDCERA utilizes various financial instruments such as equity and bond interest rate swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate and SDCERA management believes such investments offer significant advantages over the direct investment in securities including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

F. NEW INTERNAL SERVICE FUNDS

During this fiscal year, the County formed a new Information Technology Internal Service Fund (ISF). This ISF now accounts for a variety of new services and infrastructure that includes a new telecommunications system and packaged Enterprise Resource Planning software applications for Human Resources, Payroll and Financial Systems. The County's Department of Information Services was eliminated in December 1999. All costs of this ISF are now being charged to County departments as a direct charge and to customer Agencies as well. SANCAL transferred $10.5 million to fund the new ISF.

During this fiscal year, the County formed a new Facilities Management ISF. This ISF now accounts for the costs of public service utilities, architectural and engineering services, and property management. The County's Department of General Services, as of July 1999, no longer accounts for these costs. All costs of this ISF are now being charged to County departments as a direct charge and to customer Agencies as well.

During this fiscal year, the County moved the remaining vehicles being accounted for in the County General Fund to the existing Fleet ISF. This ISF now accounts for the costs of all non-Public Works related vehicles and the General Fund no longer has responsibility for these vehicles. All costs of this ISF are now being charged to County departments as a direct charge and to customer Agencies as well. As a result of this change, the Fleet ISF Operating Revenues increased $10.5 million, Operating Expenses increased $10 million, and Retained Earnings increased $1.4 million over the previous year.

G. NEW GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," in December 1998, June 1999, and April 2000 respectively. Statement 33 establishes accounting and financial reporting standards to guide state and local governments decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. Statement 34 establishes new financial reporting requirements for state and local governments. Statement 36 amends a paragraph within Statement 33. The County has not adopted the new standards for the current year, but must adopt the standards for Statements 33 and 36 for the fiscal year beginning July 1, 2000, and for Statement 34 for the fiscal year beginning July 1, 2001. The County has not determined the effect on the financial statements in the years of adoption.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected features of the Trust Agreement, the Lease, the Assignment Agreement, the Ground Lease and the Nondisturbance Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

DEFINITIONS

"Additional Certificates" means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Rental" means the additional rental payments payable by the County under and pursuant to the Lease.

"Administrative Expense Fund" means the fund by that name established in accordance with the Trust Agreement.

"Assignment Agreement" means that certain Assignment Agreement, dated as of September 1, 2001, by and between the Authority and the Trustee, as it may from time to time be amended.

"Authority" means the San Diego Regional Building Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Base Rental Payment Fund" means the fund by that name established in accordance with the Trust Agreement.

"Base Rental Payments" means the aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Lease.

"Beneficial Owner" shall have the meaning set forth in the Continuing Disclosure Agreement.

"Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

"Certificate of the Authority" means an instrument in writing signed by the Chair or the Treasurer of the Authority.

"Certificate of the County" means an instrument in writing signed by the Chief Financial Officer.

"Certificate Reserve Fund" means the fund by that name established in accordance with the Trust Agreement.

"**Certificate Reserve Fund Requirement**" means, as of any date of calculation, an amount initially equal to the amount set forth in the Trust Agreement but in no event less than the lesser of (i) maximum prospective annual Base Rental Payments with respect to Outstanding Certificates and Additional Certificates to be made by the County under the Lease in any Lease Year or (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate.

"**Certificates**" means the County of San Diego Certificates of Participation (2001 MTS Tower Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

"**Chief Financial Officer**" means the person holding the office of Chief Financial Officer of the County, including any Acting or Interim Chief Financial Officer.

"**Closing Date**" means the date on which the Certificates are initially delivered to the Purchaser thereof, as provided in the Trust Agreement.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Common Costs**" has the meaning set forth for such term in the Sublease.

"**Continuing Disclosure Agreement**" means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"**Cost of Issuance Fund**" means the fund by that name established in accordance with the Trust Agreement.

"**Costs of Issuance**" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Lease, the Assignment Agreement, Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the lease of the Property and the refunding of the Prior Obligations; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee and the Prior Trustee including fees and expenses of their respective counsel; and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the refunding of the Prior Obligations, to the extent such fees and expenses are approved by the County.

"**County**" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

"**County Proportionate Share**" means 75.05%.

"**Defeasance Securities**" means any of the following:

(1) Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS");

(2) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(3) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York, in book entry form;

(4) Pre-refunded municipal bonds rated "AAA" by Fitch, "Aaa" by Moody's and "AAA" by S&P;

(5) Obligations issued or fully guaranteed by the following agencies which are backed by the full faith and credit of the United States:

a. U.S. Export-Import Bank

Direct obligations or fully guaranteed certificates of beneficial ownership

b. Farmers Home Administration

Certificates of beneficial ownership

c. Federal Financing Bank

d. General Services Administration

Participation certificates

e. U.S. Maritime Administration

Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)

Project Notes

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

"Earnings Fund" means the fund by that name established in the Trust Agreement.

"Escrow Agreement" means the Escrow Agreement dated as of September 1, 2001, by and between the Escrow Bank and the County, under which funds are deposited with the Escrow Bank to defease the Prior Obligations.

"Escrow Bank" means State Street Bank and Trust Company of California, N.A.

"Event of Default" means, unless the context indicates otherwise, any occurrence or event specified in and defined by the Trust Agreement.

"Excess Amount" has the meaning set forth in the Lease.

"Expiry Date" means November 1, 2086, or the earlier date on which the Lease is terminated as provided therein.

"Financial Newspaper" means The Wall Street Journal or The Bond Buyer or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

"Fitch" means Fitch, Inc., or any successor credit rating agency selected by the County.

"Hazardous Substances" means any substances, pollutants, wastes and contaminants now or hereafter included in such (or similar term) term under any federal state or local statute, ordinance, code or regulation now existing or hereafter enacted or amended.

"**Insurance Consultant**" means an individual or firm retained by the County as an independent insurance consultant, experienced in the field of risk management.

"**Insurance Proceeds and Condemnation Awards Fund**" means the fund by that name established in accordance with the Trust Agreement.

"**Insurer**" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"**Interest Fund**" means the fund by that name established in accordance with the Trust Agreement.

"**Interest Payment Date**" means May 1, 2002 and each November 1 and May 1 thereafter.

"**Lease**" means that certain Lease, dated as of September 1, 2001, with respect to a portion of the Property, by and between the County, as lessee, and the Authority, as lessor, as originally executed and as it may be amended from time to time in accordance therewith.

"**Lease Year**" means the period from each July 1 to and including the following June 30 during the term of the Lease.

"**MTDB**" means San Diego Metropolitan Transit Development Board, an agency organized and existing under and by virtue of the laws of the State of California.

"**Mandatory Sinking Account Payment**" means the principal amount of any Certificates or Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the Trust Agreement or any Supplemental Trust Agreement.

"**Mandatory Sinking Account Payment Date,**" if applicable, means November 1 of each year as set forth in the Trust Agreement or any Supplemental Trust Agreement.

"**Moody's**" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the County.

"**Municipal Bond Insurance Policy**" means the municipal bond insurance policy issued by the Insurer insuring the payment when due, in whole or in part, of the principal and interest with respect to the Certificates as provided therein.

"**Nondisturbance Agreement**" means the Nondisturbance Agreement and Agreement Re: Ground Lease (2001 MTS Tower Refunding), made as of September 1, 2001, by and between MTDB, the Authority for the benefit of the Trustee.

"**Office Building**" means the ten-story office building constructed on the real property described in the Sublease, executed and entered into as of September 1, 2001, by and between San Diego Metropolitan Transit Development ("MTDB"), an agency organized and existing under and by virtue of the laws of the State of California, as lessee, and the County, as lessor, which real property is also covered by that certain Ground Lease dated as of November 1, 1987, by and between MTDB and the Authority, a Memorandum of Ground Lease for which was recorded on November 3, 1987, in the Official Records of MTDB as Document Number 87-617734, as amended by a First Amendment of Memorandum of Ground Lease for which was recorded in the Official Records of MTDB on May 25, 1988, as Document Number 88-244926, a Second Amendment to Ground Lease Agreement dated as of January 1, 1994, by and between MTDB and the Authority, and as amended and restated in that certain Amended and Restated Ground Lease dated as of September 1, 2001, by and between MTDB and the Authority.

"**Opinion of Counsel**" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County or the Authority and satisfactory to and approved by the Trustee.

"Outstanding" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates except--

(1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;

(3) Certificates and Additional Certificates paid or deemed to have been paid in accordance with the Trust Agreement; and

(4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the Lease, permit to remain unpaid; (ii) the Assignment Agreement as it may be amended from time to time; (iii) the Lease as it may be amended from time to time; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of initial delivery of the Certificates; and (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of the Lease and to which the Authority and the County consent in writing.

"Permitted Investments" means Defeasance Securities and any of the following to the extent then permitted by applicable laws and any investment policies of the County:

(1) Any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agencies, to the extent such obligations are unconditionally guaranteed by the United States of America;

(2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks or the Federal Home Loan Bank Board, or obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Authority; or guaranteed Small Business Administration notes or portions thereof;

(3) Obligations of the State of California or of any state or any local agency of either thereof which are rated in one of the two highest long-term rating categories of Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations;

(4) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, with a maximum term of one year, which are eligible for purchase by the Federal Reserve System, or deposit accounts of any bank (including the Trustee) which has unsecured, uninsured and unguaranteed obligation ratings of "F-1" or "A" by Fitch, "P-1" or "A" by Moody's and "A-1" or "A" by S&P, or better, so long as each then maintains a rating on the Certificates and a rating on such obligations;

(5) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating at the time of investment therein as provided by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations;

(6) Negotiable certificates of deposit issued by a nationally or state-chartered bank, or a state or federal savings and loan association or by a state-licensed branch of a foreign bank qualified as a depository of public funds in the State of California, including the Trustee or any affiliate thereof, which has unsecured, uninsured and unguaranteed obligation ratings of "F-1" or "A" by Fitch, "P-1" or "A" by Moody's and "A-1" or "A" by S&P, or better, so long as each then maintains a rating on the Certificates and a rating on such obligations;

(7) Any repurchase agreement or reverse repurchase agreement with members of the Association of Primary Dealers of United States Government Securities or financial institutions, which are rated at the time of investment therein not lower than "A" by Fitch, "A" by Moody's and "A" by S&P and which are acceptable to the Insurer, to the extent such agreements are fully collateralized at levels acceptable to the Insurer by obligations described in clauses (1) and (2) of this definition, if the Trustee holds or appoints some intermediary bank or savings association to hold the collateral securing such agreement and the Trustee or its appointed agent has a first priority security interest in such collateral, and the repurchase agreement or reverse repurchase agreement is free and clear of any third party lien or claim;

(8) Bonds or obligations issued by the County which are rated in one of the two highest long-term rating categories of Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such bonds or obligations, including bonds or obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;

(9) Medium-term notes, corporate notes, deposit notes or bank notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this clause (9) shall be rated in a rating category of "A" or its equivalent or better by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such notes;

(10) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this clause (10) shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by Fitch, Moody's and S&P and rated in a rating category of "AA" or its equivalent or better by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such securities;

(11) Shares in money market funds investing in the securities and obligations as authorized by clauses (1) to (10), inclusive, of this definition and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630). To be eligible for investment pursuant to this clause (11) these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations, or (2) have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by clauses (1) to (10), inclusive, of this definition and with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this clause (11) shall not include any commission that these companies may charge;

(12) Investment agreements (including guaranteed investment contracts), debt service fund float agreements and debt service reserve fund put agreements reviewed by and acceptable to Fitch, Moody's and, S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such agreement, and the Insurer;

(13) The San Diego County Pooled Investment Fund; and

(14) Any other investments which the County deems to be prudent investments and in which the County invests or directs the Trustee to invest, *provided* that such investments are approved by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such agreement, and the Insurer.

Any references to long-term rating categories in this definition shall not take into account any plus or minus sign or numerical modifiers.

"Prepayment Fund" means the fund by that name established in accordance with the Trust Agreement.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the corporate parent of the Trustee in Los Angeles, California or such other office specified by the Trustee.

"Principal Fund" means the fund by that name established in accordance with the Trust Agreement.

"Principal Payment" means the principal amount of Certificates required to be paid on each Principal Payment Date.

"Principal Payment Date" means November 1 of each year, commencing November 1, 2002.

"Prior Obligations" means Certificates of Participation (1991 MTS Tower Refunding Project) which were issued under the Prior Trust Agreement.

"Prior Trust Agreement" means that Trust Agreement, dated as of October 1, 1991, between the Authority and the Prior Trustee, pursuant to which the Prior Obligations were executed and delivered.

"Prior Trustee" means State Street Bank and Trust Company of California, N.A., acting as trustee under the Prior Trust Agreement.

"Property" means the real property and all the improvements located or to be located thereon described in the Trust Agreement and in the Lease and all the improvements located or to be located thereon (as the same may be changed from time to time by Removal or Substitution, as defined in the Lease).

"Purchase Date" means the Business Day specified in a Tender Notice as the date on which any Variable Rate Certificate or any portion thereof in an Authorized Denomination or any integral multiple thereof is to be purchased pursuant to the Trust Agreement.

"Purchase Fund" means the fund by that name established in accordance with the Trust Agreement.

"Purchaser" means Morgan Stanley & Co. Incorporated, as underwriter and purchaser of the Certificates pursuant to the Certificates Purchase Agreement.

"Rebate Requirement" means the Rebate Requirement as defined in the Tax Certificate.

"Record Date" means the close of business on the fifteenth day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

"Removal" means the release of all or a portion of the Property from the leasehold of the Lease as provided in the Lease.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental.

"Repair Fund" means the fund by that name established in accordance with the Trust Agreement.

"Reserve Fund Credit Facility" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Certificate Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein.

"Sublease" means the Sublease executed and entered into as of September 1, 2001, by and between MTDB, as lessee, and the County, as lessor.

"Substitution" means the release of all or a portion of the Property from the leasehold of the Lease and of the Lease, and the lease of substituted real property and improvements under the Lease and under the Lease as provided in the Lease.

"S&P" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the County.

"Supplemental Trust Agreement" means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms of the Trust Agreement.

"Tax Certificate" means that tax certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

"Term Certificates" means any Certificates or Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

"Trust Agreement" means the Trust Agreement by and among the Trustee, the County and the Authority, dated as of September 1, 2001, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

"Trustee" means State Street Bank and Trust Company of California, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America acting as Trustee under the Trust Agreement, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

"Written Request of the County" means an instrument in writing signed by the Chief Financial Officer, County Treasurer-Tax Collector, the Capital Finance Manager or other officers who are specifically authorized by resolution of Board of Supervisors of the County to sign or execute such a document on its behalf, as reflected in a Certificate of the County to such effect delivered to the Trustee.

TRUST AGREEMENT

TERMS AND CONDITIONS OF CERTIFICATES

Form of Certificates. The Certificates and the assignment to appear thereon shall be in substantially the forms, respectively, provided in the Trust Agreement, with necessary or appropriate insertions, omissions and variations as permitted or required by the Trust Agreement.

Execution of Certificates and Replacement Certificates. The Certificates shall be executed by the Trustee by the manual signature of an authorized signatory of the Trustee.

Transfer and Payment of Certificates; Exchange of Certificates. All Certificates may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same principal amount in Authorized Denominations. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be presented for exchange at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificate Registration Books. The Trustee will keep sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection by the Authority, the County and any Owner of at least five percent in aggregate principal amount of Outstanding Certificates at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as hereinabove described. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates or his agent duly authorized in writing.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it will execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Corporate Trust Office of the Trustee, in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, payment date in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee shall require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it as described in the foregoing and of the expenses which may be incurred by it as described in the foregoing. Any Certificate executed and delivered as described in the foregoing in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding the foregoing, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which has matured or will mature within 30 days after the Trustee has received all required indemnity and payments on account of a lost, destroyed or stolen Certificate, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the County.

Execution and Delivery of Additional Certificates. In addition to the County's Certificates of Participation (2001 MTS Tower Refunding), the County, the Authority and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments (which Additional Certificates shall not use the numbers "2001" in the title thereof). The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Authority, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Authority shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease;

(b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement;

(c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(f) The Lease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; provided, however, that no such amendment shall be made such that Base Rental Payments shall be in any way conditioned upon an additional risk of construction or completion of any portion of the Property and that the sum of Base Rental Payments, including any such amendment, plus Additional Rental in any year shall be in excess of the annual fair rental value of the Property (without taking into account the use of the proceeds of any Additional Certificates executed and delivered in connection therewith) and evidence of the satisfaction of this condition shall be made by a Certificate of the County; and

(g) Said Supplemental Trust Agreement shall provide Principal Payment Dates and/or mandatory prepayments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Base Rental Payments are due.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

The County shall cause to be given to each of Fitch, Moody's and S&P only so long as it then maintains a rating on the Certificates, and to the Insurer notice of any execution and delivery of Additional Certificates.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Authority shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Authority and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County and the Authority shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Lease required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the County and the Authority; (3) that said amendments to the Lease and the Supplemental Trust Agreement, when duly executed by the County and the Authority, will be valid and binding obligations of the County and the Authority; (4) that said amendments to the Lease have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to the Lease do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that certain requirements of the Trust Agreement have been met, which shall include a Certificate by the County as to the annual fair rental value of the Property, without giving effect to the execution and delivery of the Additional Certificates and to the use of proceeds received therefrom;

(c) Certified copies of the resolutions of the County and the Authority, authorizing the execution of the amendments to the Lease required by the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to the Lease required by the Trust Agreement;

(e) Certified copies of the policies of insurance required by the Lease or certificates thereof, which shall evidence that the amounts of the insurance required under the Lease have been increased, if necessary, to cover the amount of such Additional Certificates; and

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in the Lease

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

PROCEEDS OF CERTIFICATES

Certificate Reserve Fund.

(a) There is by the Trust Agreement established in trust a special fund designated as the "Certificate Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. Moneys in the Certificate Reserve Fund shall be in the amount of the Certificate Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Certificate Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Certificate Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Lease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Certificate Reserve Fund to the Certificate Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Certificate Reserve Fund shall be in excess of the Certificate Reserve Fund Requirement the Trustee shall, upon Written Request of the County, transfer such excess first to the County for deposit in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the County for deposit in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates and thereafter to the Principal Fund. At the termination of the Lease in accordance with its terms, any balance remaining in the Certificate Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct in writing. For purposes of determining the amount on deposit in the Certificate Reserve Fund, all investments shall be valued semi-annually on or before each Interest Payment Date at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

(b) At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Certificate Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Certificate Reserve Fund satisfies the Certificate Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a pro rata portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Certificate Reserve Fund Requirement, in either case for deposit into the Certificate Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision thereof, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of this Trust Agreement require to be transferred from the Certificate Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Certificate Reserve Fund prior to drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a pro rata basis, and (2) amounts required by the terms of this Trust Agreement to be deposited or transferred to the Certificate Reserve Fund shall (y) in the event the Reserve Fund Credit Facility has been drawn upon, be paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment or (z) otherwise be transferred or deposited pursuant to the terms of this Trust Agreement as if no deposit or transfer to the Certificate Reserve Fund were required.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

For purposes of the foregoing, the term "substitution" shall include such initial funding of the Certificate Reserve Fund Requirement by means of a Reserve Fund Credit Facility instead of by deposit of moneys, and shall not be read to mean that the County must first make an initial cash deposit in the Certificate Reserve Fund before invoking the provisions described in the foregoing and satisfying the Certificate Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

Cost of Issuance Fund. There is by the Trust Agreement established in trust a special fund designated as the "Cost of Issuance Fund" which shall be held by the County and which shall be kept separate and apart from all other funds and accounts held by the County. The County shall disburse moneys from the Cost of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance in accordance with the Tax Certificate. On or before April 1, 2002, the County shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Trustee for deposit in the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement, then to the Administrative Expense Fund to the extent that the amount on deposit therein is less than $20,000, and thereafter to the Trustee for deposit in the Principal Fund.

Administrative Expense Fund.

(a) There is by the Trust Agreement established in trust a special fund designated as the "Administrative Expense Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County.

(b) Amounts in the Administrative Expense Fund shall be paid out from time to time by the County for reasonable and necessary operating expenses of the County relating to the Certificates including, without limitation, expenses incidentally incurred in connection with the purchase or prepayment of any Certificates, which expenses shall not include the payment of principal or interest with respect to any Certificates.

(c) Amounts in the Administrative Expense Fund which the County at any time determines to be in excess of $20,000 shall be transferred to the Trustee for deposit in the Principal Fund.

Earnings Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Earnings Fund." The County shall administer the Earnings Fund as provided in the Trust Agreement.

The County shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the County in trust and shall be kept separate and apart from all other funds and money held by the County. Pursuant to the Trust Agreement, all investment earnings on the funds and accounts (other than the Excess Earnings Account and the Repair Fund) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account in accordance with the provisions of the Tax Certificate. Pursuant to the Trust Agreement, all investment earnings on the Repair Fund established thereunder shall be retained therein.

Upon each transfer, any amount remaining in the Earnings Fund or any amount on deposit in the Excess Earnings Account which exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate shall be transferred first, to the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement, second, to the Administrative Expense Fund to the extent that the amount on deposit therein is less than $20,000, and thereafter to the Trustee for deposit in the Base Rental Payment Fund by the County. Except as set forth in the proceeding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Repair Fund. There is by the Trust Agreement established in trust a special fund designated as the "Repair Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall disburse moneys from the Repair Fund on such dates and in such amounts as are necessary to pay costs of repair, rehabilitation and reconstruction of the Office Building and of expenses incident thereto (or for making reimbursements to the County or any other person, firm or corporation for such costs theretofore paid by him or it), including, without limitation, architectural and engineering fees and expenses, equipment, tests and inspections, surveys, insurance premiums and losses during construction not insured against because of deductible amounts. Before any such disbursement is made, the County shall have caused to be filed with the Trustee a written request substantially in the form provided in the Trust Agreement.

Upon receipt of each such Written Request of the County, the Trustee will pay the amount set forth in such Written Request of the County as directed by the terms thereof.

Any remaining balance in the Repair Fund following completion of the repair, rehabilitation and reconstruction of the Office Building as evidenced by a Certificate of the County shall be transferred, first to the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement, and thereafter to the Base Rental Payment Fund; provided, however, the Trustee shall, upon written direction of the County, deposit the remainder in the Prepayment Fund to be applied to the prepayment of such Certificates pursuant to the optional prepayment provisions of the Trust Agreement.

Notwithstanding anything to the contrary contained in the Trust Agreement, funds in the Repair Fund shall be invested only in Permitted Investments upon the direction of the County Treasurer.

RENTAL PAYMENTS

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner hereinafter described in the following respective funds, each of which the Trustee by the Trust Agreement agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease or until such date as the Certificates and any Additional Certificates are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized under the Trust Agreement.

(a) Interest Fund. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Monies in the Interest Fund shall be used and withdrawn by the Trustee for the purpose of paying the interest represented by the Certificates and any Additional Certificates when due and payable.

(b) Principal Fund. The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Certificates and any Additional Certificates when due and payable at maturity or upon earlier prepayment from Mandatory Sinking Account Payments. Principal or interest then due on Certificates shall be transferred first to the Certificate Reserve Fund to make up any deficiency in the Reserve Amount, and, if no Event of Default has occurred and is continuing, any necessary amount may be transferred to the County.

(c) Prepayment Fund. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Prepayment Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest represented by the Certificates and any Additional Certificates to be prepaid.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County or the Authority.

Delivery to the Trustee of the schedule of insurance policies under the Lease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the County deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the County to the Trustee pursuant to the Lease.

Except as hereinafter described, in the event of any damage to or destruction of any part of the Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Lease, the County and the Authority shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the Lease. The Trustee shall hold said proceeds in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon the County or the Authority making a written record of such payment, stating that the County or the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be treated by the Trustee as prepaid Base Rental Payments and transferred to the Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Property and thereupon shall cause the Trustee to transfer said proceeds to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement. Notwithstanding any other provision of the Trust Agreement, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the Property after such damage, aggregate annual amount of principal and interest represented by the Outstanding Certificates and Additional Certificates not being prepaid. The proceeds of any award in eminent domain shall be transferred to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the County, the Authority or the Trustee in respect of the Property shall be applied and disbursed by the County, the Authority or the Trustee as follows:

If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Property and will not result in an abatement of Rental Payments payable by the County under the Lease, such proceeds shall be deposited first in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Certificate Reserve Fund to the extent that the amount therein is less than the Certificate Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County with respect to the Certificates, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

If any portion of the Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Rental Payments payable by the County under the Lease, then the County, the Authority and the Trustee shall immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates and Additional Certificates in the manner provided in the Trust Agreement.

COVENANTS

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates or Additional Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and the neither of the County or the Authority will suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

Compliance with Lease and Lease. The County and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Authority will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the County ten (10) days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however*, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the County nor the Authority will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Authority at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Recordation and Filing. The Authority will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Lease, the Assignment Agreement and the Trust Agreement at all times as a security interest in the Base Rental Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to perfect, preserve and protect fully the security of the Owners and the rights and security interests of the Trustee, and the Authority will do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of the Lease, the Assignment Agreement and the Trust Agreement.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement or the Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants.

Pursuant to the Trust Agreement, the County shall establish and maintain an account separate from any other fund or account established and maintained under the Trust Agreement designated as the "Excess Earnings Account." There shall be deposited in the Excess Earnings Account such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the County in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates and the Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively as described under this heading and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate.

Any funds remaining in the Excess Earnings Account after payment in full of all of the Certificates and any Additional Certificates and after payment of any amounts described under this heading, shall be withdrawn by the County to be used for any lawful purpose.

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. The following events shall be Events of Default with respect to Certificates:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Authority by the Trustee, or to the County, the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; *provided, however*, that if such default can be remedied but not within such thirty (30) day period and if the County has taken all action reasonably possible to remedy such default within such thirty (30) day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Lease.

Action on Default. Subject to the Trust Agreement, in each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates and any Additional Certificates at the time Outstanding (subject to certain provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Authority, to exercise any of the remedies granted to the Authority under the Lease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates and any Additional Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement and as described under the next heading.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Authority or any director, officer or employee thereof, and to compel the County or the Authority or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Authority to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Property after a default by the County pursuant to the Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due as interest with respect to the Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates and Additional Certificates.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates and any Additional Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or Additional Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates or Additional Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Certificates or Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificates at and after the maturity or earlier prepayment.

THE TRUSTEE

Employment of the Trustee. The County and the Authority by the Trust Agreement appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment hereinabove referred to and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Authority may, by an instrument in writing and up to 30-day written notice remove the Trustee initially party hereto and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing) but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a Principal Corporate Trust Office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County, the Authority and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Authority shall promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event the County and the Authority do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

For such time as the Municipal Bond Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Municipal Bond Insurance Policy (1) the Trustee may be removed at any time, at the request of the Insurer, for any breach of the trust set forth in the Trust Agreement, (2) the Insurer shall receive prior written notice of any Trustee resignation, (3) every successor Trustee appointed pursuant to the Trust Agreement shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $75,000,000 and acceptable to the Insurer, and (4) no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be appointed.

Compensation and Indemnification of the Trustee. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its advances and expenditures under the Trust Agreement, including but not limited to advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however*, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds established under the Trust Agreement or under the Lease (except that such compensation or reimbursement may be made from the Cost of Issuance Fund held by the County to the extent provided in the Trust Agreement or the application of amounts after default as provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Authority. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Lease.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or Additional Certificate or to take any action at the request of any such person unless such Certificate or Additional Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate or Additional Certificate shall be furnished to the Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Certificates or Additional Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith. If requested by the County, counsel to the Trustee shall be experienced in the field of law relating to municipal bonds. If requested by the County, counsel to the Trustee shall be of recognized national standing in the field of law relating to municipal bonds.

The Trustee shall not be responsible for the sufficiency or adequacy of the Certificates or any Additional Certificates, the Lease, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Certificates or any Additional Certificates, or of the title to or value of the Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement or an Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Authority or by the Owners of not less than 25% in aggregate principal amount represented by the Certificates and Additional Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and Additional Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Authority, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the County or the Authority as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct or negligence.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease, the Lease or the Trust Agreement for the existence, furnishing or use of the Property.

Every provision of this Trust Agreement, the Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of this Trust Agreement.

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Authority, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise specifically provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the County or the Authority, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT

Amendment or Supplement. The Trust Agreement and the rights and obligations of the County, the Authority, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the fixed Principal Payment Date of any Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent, or (4) modify any provision of this Trust Agreement expressly recognizing or granting rights in or to the Insurer in any manner which affects the rights of the Insurer under the Trust Agreement without its prior written assent thereto, or (5) amend as described under this heading without the prior written consent of the Insurer and the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Authority, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding upon execution but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Trust Agreement the County or the Authority, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County or the Authority, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Property as may be requested from time to time by the County in accordance with the Lease; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the County or the Authority may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, *provided* such amendment or supplement does not materially adversely affect the interests of the Owners, *provided further* that the County, the Authority and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this clause (e) have been met with respect to such amendment or supplement.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer thereunder without the prior written consent of the Insurer.

Disqualified Certificates. Certificates and Additional Certificates actually known by the Trustee to be owned or held by or for the account of the County (but excluding Certificates and Additional Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates and Additional Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates and Additional Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as hereinabove described and as provided in the provisions of the Trust Agreement relating to amendment of or supplement to Trust Agreement, the Trustee may determine that the Certificates and Additional Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and Additional Certificates and presentation of such Certificate or Additional Certificate for such purpose at the Principal Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates or Additional Certificates modified to conform to such action are necessary, modified Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates or Additional Certificates such new Certificates shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Owner for Certificates or Additional Certificates then Outstanding upon surrender of such Outstanding Certificates or Additional Certificates.

Amendment by Mutual Consent. The provisions of the Trust Agreement relating to amendment of or supplement to Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular Certificates or Additional Certificates owned by him, *provided* that due notation thereof is made on such Certificates.

Opinion of Counsel. In executing any amendment or supplement to the Trust Agreement the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Trust Agreement have been satisfied.

DEFEASANCE

Discharge of Certificates and Trust Agreement.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated to the Trust Agreement and therein then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the Authority, the County, the Authority and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed under this heading if (i) in case said Certificates or Additional Certificates are to be redeemed on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates and to the securities depository and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee as described in this paragraph nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; *provided* that Defeasance Securities deposited with the Trustee pursuant to the provisions described in this paragraph may be sold upon the Written Request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates and Additional Certificates from federal income taxes, and *provided further* that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to the Trust Agreement, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in the foregoing shall preclude prepayments pursuant to the provisions of the Trust Agreement relating to terms of prepayment.

Any release as described in the preceding paragraph shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; *provided, however*, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the provisions of the Trust Agreement relating to defeasance.

(c) After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the County and the Authority all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Lease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal represented by any of the Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal represented by such Certificates or Additional Certificates have become payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal represented by such Certificates or Additional Certificates; *provided, however*, that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such funds shall be returned to the County within 30 days.

MUNICIPAL BOND INSURANCE POLICY

Payments from Municipal Bond Insurance Policy. Payment of the principal and interest with respect to the Certificates shall be insured by the Municipal Bond Insurance Policy provided by the Insurer. So long as the Municipal Bond Insurance Policy is in full force and effect and the Insurer is not in default thereunder, the County and the Trustee agree to comply with the following provisions by which the Insurer will pay any principal or interest payment due and payable with respect to the Certificates but for which there are insufficient funds for the payment thereof:

(a) At least one day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds in the funds and accounts maintained by it under the Trust Agreement to pay the principal or interest with respect to the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such deficiency will be as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one day prior to an Interest Payment Date, the Insurer will make payments of principal or interest with respect to the Certificates on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to the United States Trust Company of New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books for the Certificates maintained by the Trustee and all records relating to the funds and accounts maintained by the Trustee under the Trust Agreement.

(c) The Trustee shall provide the Insurer and the Insurance Trustee with a list of the Owners of the Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners of the Certificates entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal represented by the Certificates surrendered to the Insurance Trustee by the Owners of the Certificates entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of the Certificates entitled to receive the payment of principal or interest with respect to the

Certificates from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal or interest with respect to the Certificates which has become Due For Payment (as defined in the Municipal Bond Insurance Policy) and which is made to such Owner by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify the Insurer and, at the time the Insurer is notified, notify all Owners of the Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee and subsequently recovered from such Owner and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under this Trust Agreement, the Insurer shall, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon surrender of the Certificates by the Owners thereof, together with proof of the payment of principal thereof.

(g) Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Municipal Bond Insurance Policy, such Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and pledge of the Base Rental Payment Fund and the Certificate Reserve Fund and all covenants, agreements and other obligations of the County to the Owners of the Certificates shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Information To Be Given To Ambac Assurance Corporation. For such time as the Municipal Bond Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Municipal Bond Insurance Policy, the County or the Trustee shall furnish to the Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

(a) So long as the Insurer is not in default under the Municipal Bond Insurance Policy, the County shall furnish to the Insurer (i) written notice, at least 30 days in advance of soliciting consents of Owners, with respect to each amendment to the Trust Agreement or the Lease requiring the consent of Owners, and (ii) a copy of any notice to be given to the registered owners of the Certificates, including, without limitation, notice of any prepayment of or defeasance of Certificates, and any certificate rendered pursuant to the Trust Agreement relating to the security for the Certificates.

(b) The Trustee shall notify the Insurer of any failure of the County to provide notices or certificates required under the Trust Agreement.

(c) Upon the occurrence of an Event of Default which is continuing, the County will permit the Insurer to discuss the affairs, finances and accounts of the County or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the County. The Trustee and the County will permit the Insurer to have access to the Property and have access to and to make copies of all books and records relating to the Certificates at any reasonable time.

(d) Upon the occurrence of certain Events of Default set forth in the Trust Agreement, which is continuing, the Insurer shall have the right to request an accounting, to be completed at the County's expense within thirty (30) days after receipt of such written request, provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would materially adversely affect the interests of any registered owner of the Certificates.

(e) Notwithstanding any other provision of the Trust Agreement, the Trustee or the County shall immediately notify the Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under the Trust Agreement.

(f) The Trustee or the County shall forward to the Insurer a copy of the County's annual certification provided pursuant to the Lease that the insurance policies required by the Lease are in full force and effect, and will provide the Insurer with copies of such policies upon request.

Consent of Insurer. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, the Insurer's consent shall be required for the initiation or approval of any action which requires the consent of the Owners, including, but not limited to, consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Trust Agreement or any amendment, supplement or change to or modification of the Lease; and (ii) removal of the Trustee and selection and appointment of any successor trustee. Notwithstanding anything to the contrary in the Trust Agreement, the rights given to the Insurer thereunder to give consents, directions and approvals shall not be effective so long as it is in default of its obligations under the Municipal Bond Insurance Policy.

Consent of Insurer in the Event of Insolvency. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, any reorganization or liquidation plan with respect to the County must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold Certificates absent a default under the Municipal Bond Insurance Policy.

Exercise of Remedies Upon Default. Notwithstanding anything to the contrary in the Trust Agreement, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, upon the occurrence and continuance of an Event of Default as defined therein, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

Limitation on Modification. Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in a manner which affects the rights of the Insurer thereunder without the prior written consent of the Insurer.

Effect of Municipal Bond Insurance Policy. Notwithstanding any other provision of the Trust Agreement, in determining whether any actions taken pursuant to the terms and provisions of the Trust Agreement or under the Lease are adverse to the interests of the Owners of the Certificates, the effect on the Owners shall be considered as if there were no Municipal Bond Insurance Policy.

Insurer as Third Party Beneficiary. To the extent that the Trust Agreement confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Insurer is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

MISCELLANEOUS

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the County, the Authority, the Trustee, the Insurer and the Owners, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Trust Agreement contained by and on behalf of the County or the Authority shall be for the sole and exclusive benefit of the County, the Authority, the Trustee, the Insurer and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever any of the County, the Authority or the Trustee or any officer thereof is named or referred to in this summary of the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the County, the Authority or the Trustee or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the County, the Authority or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Funds. Any fund required to be established and maintained in the Trust Agreement by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

The County and the Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; *provided, however*, that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the Written Request of the County Treasurer only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (11) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments shall be deposited in the Earnings Fund and are to be transferred as provided in the Trust Agreement. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Trust Agreement.

The Trustee is authorized, in making or disposing of any investment permitted by the foregoing, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

THE LEASE

THE PROPERTY

Lease of the Property. The Authority by the Lease leases to the County, and the County by the Lease rents and hires from the Authority, the Property on the conditions and terms hereinafter set forth. The County by the Lease agrees and covenants that during the term of the Lease, except as hereinafter *provided*, it will use the Property for public purposes so as to afford the public the benefits contemplated by the Lease and so as to permit the Authority to carry out its agreements and covenants contained in the Lease and in the Trust Agreement, and the County by the Lease further agrees and covenants that during the term of the Lease that it will not abandon or vacate the Property. The rights of the County to occupy a portion of the Property, and the improvements thereon are subject to the rights of MTDB, as Lessor, under the Ground Lease.

Quiet Enjoyment. The parties to the Lease mutually covenant that, subject to the preceding paragraph, the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Lease and is not in default under the Lease, shall at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Right of Entry and Inspection. The Authority shall have the right to enter the Property and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease and for all other lawful purposes.

Additions and Improvements; Prohibition Against Encumbrance or Sale. The County shall have the right during the lease term to make any additions or improvements to the Property, to attach fixtures, structures or signs, and to affix any personal property to the Property, so long as the fair rental value of the Property is not thereby reduced. Title to all fixtures, equipment or personal property placed by the County on the Property shall remain in the County. The title to any personal property, improvements or fixtures placed on the Property by any sublessee or licensee of the County shall be controlled by the sublease or license agreement between such sublessee or licensee and the County, which sublease or license agreement shall not be inconsistent with this Lease.

The County and the Authority will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Certificates as contemplated by the Lease. The County and the Authority will not sell or otherwise dispose of the Property or any property essential to the proper operation of the Property, except as otherwise provided in the Lease. Notwithstanding anything to the contrary in the Lease contained, but subject to the Ground Lease, with the consent of the Insurer, which shall not be unreasonably withheld, the County may assign, transfer or sublease any and all of the Property or its other rights under the Lease, *provided* that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of MTDB under the Ground Lease and the Authority under the Lease, (b) no such assignment, transfer or lease shall relieve the County of any of its obligations under the Lease, (c) the assignment, transfer or lease shall not result in a breach of any covenant of the County described elsewhere in this summary or in this Official Statement, (d) any such assignment, transfer or lease shall by its terms expressly provide that the fair rental value of the Property for all purposes shall be first allocated to the Lease, as the same may be amended from time to time before or after any such assignment, transfer or lease and (e) no such assignment, transfer or lease shall confer upon the parties thereto any remedy which allows reentry upon the Property unless concurrently with granting such remedy the same shall be also granted under the Lease by an amendment to the Lease which shall in all instances be prior to and superior to any such assignment, transfer or lease.

Liens. In the event the County shall at any time during the term of the Lease cause any improvements to the Property to be constructed or materials to be supplied in or upon or attached to the Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Property and shall keep the Property free of any and all liens against the Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Property or the Authority's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Authority and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Property or the Authority's interest therein.

Substitution or Removal of Property.

(a) The County may amend the Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property, with the consent of the Insurer, which shall not be unreasonably withheld, and upon compliance with all of the conditions set forth in the Lease. After a Substitution or Removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Lease.

(b) No Substitution or Removal shall take place under the Lease until the County delivers to the Authority and the Trustee the following:

(1) A Certificate of the County containing a description of all or part of the Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the County (A) stating that the annual fair rental value of the Property after a Substitution or Removal, in each year during the remaining term of the Lease, is at least equal to the maximum annual Base Rental Payments attributable to the Property prior to said Substitution or Removal, as determined by the County on the basis of an appraisal of the Property after said Substitution or Removal conducted by a member of the Appraisal Institute of America (MAI) designated by the County; (B) demonstrating that the useful life of the Property after Substitution or Removal equals or exceeds the remaining term of this Lease; and (C) stating that the Property after a Substitution or Removal is as essential to the operations of the County as was the Property immediately prior to such Substitution or Removal;

(3) An Opinion of Counsel to the effect that the amendments to the Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Authority enforceable in accordance with their terms;

(4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments, insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates and any Additional Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;

(7) Evidence that the County has complied with particular covenants contained in the Lease relating to insurance with respect to the Substituted Property; and

(8) Evidence that the Substitution or Removal, in and of itself, has not or will not cause a downgrade or withdrawal of the then existing credit ratings on the Certificates and any Additional Certificates.

TERM OF THE LEASE

Commencement of the Lease. The effective date of the Lease is the Closing Date, and the term of the Lease shall end on the Expiry Date, unless such term is sooner terminated as hereinafter provided. The County has the option to terminate the Lease on November 1, 2042, and on each tenth anniversary thereafter, upon six months prior written notice to the Authority.

USE OF PROCEEDS; TAX COVENANTS

Use of Proceeds. The parties to the Lease agree that the proceeds of the Certificates will be used to refund and defease the Prior Obligations on the earliest possible date and to pay the costs of executing and delivering the Certificates and incidental and related expenses.

Tax Covenants. (a) The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Certificates and any Additional Certificates to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Certificates and any Additional Certificates and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided*, that if the County shall obtain an Opinion of Counsel to the effect that any action described under this heading is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions of the Lease. In the event that at any time the County is of the opinion that for purposes of the foregoing it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

(b) To the ends covenanted in the Lease, the County by the Lease specifically agrees to ensure that the following requirements are met:

(1) No more than five percent of the Property (determined both on the basis of space and on the basis of cost) shall be used in the trade or business of one or more nongovernmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code).

(2) The County will not invest or allow to be invested proceeds of the Lease, the Certificates or any Additional Certificates at a yield in excess of the yield on the Lease, the Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(3) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

RENTAL PAYMENTS

Rental Payments. The County agrees to pay to the Authority, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Property, the following amounts at the following times:

(a) Base Rental. The County shall pay to the Authority (a) Base Rental Payments due under the Prior Lease, as set forth in the Base Rental Schedule attached to the Lease, a portion of which Base Rental shall constitute interest, but solely from amounts deposited with the Escrow Bank, pursuant to the Escrow Agreement; and (b) rental under the Lease as Base Rental Payments with respect to the Property in the amounts set forth in the Base Rental Payment Schedule attached to the Lease, a portion of which Base Rental Payments shall constitute interest. Notwithstanding the dates designated for the payment of the Base Rental Payments on such schedule to the Lease, all Base Rental Payments due in any Lease Year shall be due and payable in one sum on the Closing Date in the case of Base Rental Payments payable prior to July 1, 2002, as set forth in such schedule to the Lease, and on July 5 of each year (or the next Business Day if July 5 does not fall on a Business Day), commencing on July 5, 2002, in the case of Base Rental Payments accruing in each Lease Year ending after June 30, 2002, as set forth in the Lease. Failure of the County to comply with the foregoing provisions shall constitute an event of default under the Lease. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the County under the Lease. The obligation to make the Base Rental Payments shall commence as of the Closing Date.

(b) Additional Rental. The County shall also pay, as rental under the Lease in addition to the Base Rental Payments, to the Authority or the Trustee, as provided in the Lease, such amounts ("Additional Rental") in each year as shall be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease or the assignment thereof, the Trust Agreement or the respective interests in the Property and the lease of the Property by the Authority to the County under the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, all Common Costs until Full Payment has occurred and thereafter, the County Proportionate Share of Common Costs, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates, any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Certificates, any Additional Certificates or of the Trust Agreement.

The foregoing Additional Rental other than that related to Common Costs shall be billed to the County by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Trustee on behalf of the Authority for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

With respect to Common Costs:

(i) During the last month of each Lease Year starting with the Lease Year in which Full Payment shall occur (the "Commencing Lease Year"), or as soon thereafter as practicable, the Authority shall give to the County notice of the Authority's budget estimate of the amounts payable as Common Costs for the following Lease Year. On or before the first day of each month during the following each such Lease Year, the County shall pay to the Authority one-twelfth (1/12th) of the County Proportionate Share of such estimated budget amounts; provided, however, that if the Authority fails to give such notice in the last month of the prior Lease Year, then the County shall continue to pay on the basis of the prior Lease Year's budget estimate until the first day of the calendar month next succeeding the date such notice is given by the Authority. If at any time or times the Authority determines that the amounts payable as Common Costs for the then current Lease Year vary from its budget estimate given to the County, the Authority, by notice to the County, may revise its budget estimate for such Lease Year, and subsequent payments for such shall be based upon such revised budget estimate

(ii) Following the end of each Lease Year starting with the Commencing Lease Year, the Authority shall deliver to the County a statement of amounts payable by the County as Common Costs for such Lease Year. If such statement shows an amount owing by the County that is less than the payments for such Lease Year previously made by the County, and if no Event of Default has occurred and is continuing at the time such statement is delivered, the Authority shall credit such amount to the next payments of Base Rental Payment falling due under this Lease. If such statement shows an amount owing by the County that is more than the estimated payments for such Lease Year previously made by the County, the County shall pay the deficiency to the Authority within thirty (30) days after delivery of such statement. The respective obligations of the Authority and the County under this paragraph shall survive the Expiry Date, and, if the Expiry Date is a day other than the last day of a Lease Year, the adjustment in rent payments for Common Costs pursuant to the Lease Year in which the Expiry Date occurs shall be prorated in the proportion that the number of days in such Lease Year preceding the Expiry Date bears to 365.

Any taxes levied against the Authority with respect to the Property, the fees of the Trustee, and any other expenses directly attributable to the Property shall be included in the Additional Rental payable under the Lease. Any taxes levied against the Authority with respect to real property other than the Property, the fees of any trustee or paying agent under any resolution securing bonds of the Authority or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Property shall not be included in the administrative costs of the Property and shall not be paid from the Additional Rental payable under the Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Authority in making any determination that costs are payable as Additional Rental under the Lease. and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Property.

(c) Consideration.

(i) Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Lease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Property. On the Closing Date, the County shall deliver a certificate to the Authority and the Trustee which shall set forth the annual fair rental value of the Property (the "Fair Rental Value"). The County and the Authority have agreed under the Lease and determined that the annual fair rental value of the Property is not less than the maximum Base Rental Payments payable under the Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Property, other obligations of the parties under the Lease, the uses and purposes which may be served by the improvements on the Property and the benefits therefrom which will accrue to the County and the general public.

(ii) The parties to the Lease acknowledge that they may amend the Lease from time to time to increase the Base Rental Payments payable thereunder so that Additional Certificates may be executed and delivered pursuant to the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained the Lease, the Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to the Outstanding Certificates and Additional Certificates secured by the Property in any year is in excess of the annual fair rental value of the Property and other land and improvements leased to the County under the Lease.

(d) Payment; Credit. Each installment of Base Rental Payments payable under the Lease shall be paid in lawful money of the United States of America to or upon the order of the Authority at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Authority shall designate. Any such installment of rental accruing under the Lease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Lease and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Lease until the same shall be paid. Notwithstanding any dispute between the County and the Authority, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to the Lease on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Annual Budgets; Reporting Requirements. The County has covenanted under the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Lease in its operating budget for each fiscal year commencing after the date of the Lease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental Payments. In addition, to the extent permitted by law, the County has covenanted under the Lease to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget.

Application of Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Lease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Lease and thereafter to all Additional Rental due under the Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Certificate Reserve Fund, (b) amounts received in respect of use and occupancy insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Lease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Property shall first be allocated to the Lease as provided therein. Any abatement of rental payments pursuant to the Lease shall not be considered an Event of Default as defined in the Lease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference and the Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the County has agreed under the Lease to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Property.

Prepayment of Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Lease, all or any portion of the components of Base Rental

Payments relating to any portion of the Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates, with respect to the portion of the Property so prepaid.

Before making any prepayment pursuant to the Lease, at least 45 days before the prepayment date the County shall give written notice to the Authority and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Authority and the Trustee.

MAINTENANCE; TAXES; INSURANCE AND OTHER CHARGES

Maintenance of the Property by the County. The County agrees that, at all times during the term of the Lease at its own cost and expense, will maintain, preserve and keep or cause to be maintained, preserved and kept the Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority shall have no responsibility in any of these matters or for the making of additions or improvements to the Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Lease contemplate that the Property will be used for public purposes by the County and, therefore, that the Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Authority of the Property is found to be subject to taxation in any form, the County will pay during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Property; *provided*, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility or through a program of self-insurance or self-funding to the extent specifically permitted under the Lease, all coverage on the Property described under this heading. Such insurance shall consist of:

(1) A policy or policies of insurance against loss or damage to the Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Property and, in the case of a policy covering more than the Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations and Certificates which are Outstanding; *provided* that with the consent of the Insurer, the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant or insurance broker retained by the County provides written advice that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County *is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake*. Such insurance may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for

flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (1). Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Property in an amount not less than $50,000,000 per occurrence; *provided, however*, that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to $50,000,000 per occurrence in the aggregate for all properties. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County of San Diego which may be limited in amount to $50,000,000 per occurrence in the aggregate for all insureds. Otherwise conforming policies satisfying the requirements of this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa.

(3) So long as any Certificates or Additional Certificates are Outstanding, rental interruption insurance to cover loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) or (2) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Lease for a period adequate to cover the period of repair or replacement, but in no event shall such policy be in an amount less than two years' Base Rental Payments for the Property; *provided* that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) or (2) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (3) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1) or (2) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (1) or (2), as the case may be, for the same occurrence, and vice versa.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1), (2) and (3) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Lease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance in the Lease required. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1), (2) and (3) above shall be so written or endorsed as to make losses, if any, payable to the County, the Authority and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1), (2) or (3) above shall be applied as provided in the Lease. The net proceeds, if any, of the insurance policy described in paragraphs (1) and (2) above shall be payable to the Trustee for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (3) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy described under this heading shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority or the Trustee without first giving written notice thereof to the Authority and the Trustee at least 30 days in advance of such intended cancellation or modification.

(4) Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraph (1) above, the County may, with the consent of the Insurer, provide a self-insurance or self-funding method or plan of protection for any part or all of the requirements for such insurance and, through such a plan or method, provide for deductible or retention amounts greater than those contemplated by paragraph (1) above. Any such self-insurance or self-funding maintained by the County pursuant to the foregoing shall comply with the following terms:

(a) the self-insurance or self-funding program shall be approved by an Insurance Consultant;

(b) the self-insurance or self-funding program shall include a reasonable claims reserve fund out of which each self-insured or self-funded claim and any deductible amount authorized by paragraph (1) above shall be paid; prior to the end of the first Lease Year, the adequacy of each such fund shall be evaluated by an Insurance Consultant who shall also evaluate the appropriateness of the reserving methods and practices employed in establishing and maintaining each such fund; any deficiencies in any claims reserve fund shall be remedied in accordance with the recommendation of the Insurance Consultant and any recommended changes in the reserving methods or practices shall be adopted in accordance with the recommendation of the Insurance Consultant; after the first Lease Year, at least annually and not later than January 31 of each year that is a Lease Year, the County shall provide to the Trustee a report by either the independent accountants which provide the audit report on the County's annual audited financial statements or by an Insurance Consultant, as selected by the County, as to the appropriateness of the reserving and self-funding methods and practices employed by the County in funding the claims funds, and any changes recommended by the report shall promptly be implemented by the County;

(c) the claims reserve fund shall be held in a separate fund by the County but may be invested as other County funds are invested in the San Diego County Pooled Investment Fund; and

(d) in the event the self-insurance or self-funding program shall be discontinued, the soundness of its claim and deductible or retention reserve fund, as determined by the Insurance Consultant, shall be maintained.

The County shall file a Certificate of the County with the Trustee and the Insurer not later than January 31 of each year certifying that the insurance policies described under this heading are in full force and effect and that the Authority and/or Trustee is named as a loss payee on each insurance policy which the Lease requires to be so endorsed. The County will provide the Insurer with copies of such Insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of the insurance required under the Lease.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the Lease or shall fail to keep the Property in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become Additional Rental, which amounts the County agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Title Insurance. The County covenants and agrees to deliver or cause to be delivered to the Trustee immediately upon the acquisition of the Real Property by the County and not later than the Escrow Purchase Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Property with liability in the aggregate amount equal to the principal amount of Certificates secured by the Property. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Property subject only to the rights of MTDB under the Ground Lease and to such other exceptions as do not materially affect the County's right to the use and occupancy of the Property.

DAMAGE, DESTRUCTION, TITLE DEFECT AND CONDEMNATION

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Lease (a) the Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Property or any portion thereof or the estate of the County or the Authority in the Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Authority will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; *provided*, that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of principal and interest represented by Outstanding Certificates and Additional Certificates attributable to the portion of the Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the entire Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement. Notwithstanding any other provision in the Lease, the County shall only prepay less than all of the Outstanding Certificates if the annual fair rental value of the Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Property so that the fair rental value of the Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Certificates and Additional Certificates, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary, but in no event more than the net proceeds available from any insurance claim or condemnation award described under this heading to effect such repair, rebuilding or replacement or prepayment; *provided* that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Lease.

DISCLAIMER OF WARRANTIES; VENDOR'S WARRANTIES; USE OF THE PROPERTY

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE AUTHORITY MAKES ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE AUTHORITY IS A MANUFACTURER OF ANY PORTION OF THE PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the County's use of the Property as provided by the Lease.

Use of the Property; Improvements. The County will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease. The County shall provide all permits and licenses, if any, necessary for the use of the Property. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Property) with all laws of the jurisdictions in which its operations involving any portion of the Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; *provided*, that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Authority in and to the Property or its interest or rights under the Lease.

ASSIGNMENT AND INDEMNIFICATION

Assignment by Authority. The parties understand that certain of the rights of the Authority under the Lease and under the Ground Lease will be assigned to the Trustee pursuant to the Assignment Agreement, and accordingly the County agrees to make all payments due under the Lease to the Trustee under the Trust Agreement, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Lease or otherwise) that the County may from time to time have against the MTDB or the Authority. The County agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements which may be reasonably requested by the Authority or the Trustee to protect their interests in the Property during the term of the Lease.

Assignment by Lessee. The Lease and the interest of the County in the Property may not be assigned or encumbered by the County except as permitted expressly by the Lease.

Indemnification. The County shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Authority and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the Lease, the acquisition, construction, installation and use of the Property and each portion thereof or any accident in connection with the operation, use, condition or possession of the Property or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the County or the Authority; any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Property; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising as described under this heading shall continue in full force and effect notwithstanding the full payment of all obligations under the Lease or the termination of the Lease for any reason. The County, the Trustee and the Authority mutually agree to promptly give notice to each other of any claim or liability by the Lease indemnified against following the learning thereof by such party.

DEFAULT

Default. (a) The following events shall be "Events of Default" under the Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Lease, any one or more of the following events:

(i) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Lease, *provided*, that the failure to deposit any Base Rental Payments abated pursuant to the Lease shall not constitute an Event of Default;

(ii) The County shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Lease; or

(iii) The County shall breach any other terms, covenants or conditions contained in the Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Authority to the County; *provided, however*, that if the failure stated in the notice cannot be corrected within such period, then the Authority shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the Events of Default specified in paragraph (a) or (b) under this heading, then it shall be lawful for the Authority or its assignee, subject to the terms of the Lease, and to the direction and control of the Insurer, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, to exercise any and all remedies available or granted to it under the Lease.

(b) The Authority or its assignee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Lease in the manner hereinafter provided on account of default by the County, notwithstanding any retaking of possession or re-letting of the Property as hereinafter provided for in subparagraph (2), or to retake possession of the Property without such termination. In the

event of such retaking, the County agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority or its assignee all damages recoverable at law that the Authority or its assignee may incur by reason of default by the County, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Property. Neither notice to pay rent nor to deliver up possession of the Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority or its assignee to protect the Authority's or its assignee's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the County shall be or become effective by operation of law or acts of the parties to the Lease, unless and until the Authority or its assignee shall have given written notice to the County of the election on the part of the Authority or its assignee to terminate the Lease.

(2) Without terminating the Lease, and subject to the direction and control of the Insurer, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, to collect each installment of rent as it becomes due and enforce any other term or provision of the Lease to be kept or performed by the County. In the event the Authority or its assignee does not elect to terminate the Lease in the manner provided for in subparagraph (1) then, the County shall remain liable and agrees to keep or perform all covenants and conditions in the Lease contained to be kept or performed by the County and, to pay the rent to the end of the term of the Lease or, in the event that the Property is re-let, to pay any deficiency in rent that results therefrom. The County agrees that the terms of the Lease constitute full and sufficient notice of the right of the Authority or its assignee to re-let the Property in the event of such reentry without effecting a termination of the Lease, and further agrees that no acts of the Authority or its assignee in effecting such re-letting shall constitute a surrender of termination of the Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the County, the right to terminate the Lease shall vest in the Authority or its assignee to be effected in the sole and exclusive manner provided for in subparagraph (1). The County further waives the right to rental obtained by the Authority or its assignee in excess of the rental herein specified by the Lease conveys and releases such excess to the Authority or its assignee as compensation to the Authority or its assignee for its services in re-letting the Property or any items thereof.

The County by the Lease waives any and all claims for damages caused or which may be caused by the Authority or its assignee in taking possession of the Property as provided in the Lease and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the County, or any other person, that may be on or about the Property.

The Authority expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

(c) In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Lease, if the County's interest in the Lease or any part thereof assigned, sublet or transferred without the written consent of the Authority (except as otherwise permitted by the Lease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Property or any portion thereof (except as permitted by the Lease); then in each and every such case the County shall be deemed to be in default under the Lease.

(d) Neither the County nor the Authority shall be in default in the performance of any of its obligations under the Lease (except for the obligation to make Base Rental Payments pursuant to the Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County or the Authority, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

(e) The County and Authority and its successors and assigns shall honor the exclusive rights of the County to use the Property.

MISCELLANEOUS

Trustee as Third Party Beneficiary. The Trustee is by the Lease designated a third party beneficiary under the Lease for the purpose of enforcing any of the rights under the Lease assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Authority and the County that lease payments under the Lease shall be absolutely net to the Authority so that the Lease shall yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as in the Lease specifically otherwise provided. The Authority shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Lease except as in the Lease expressly set forth, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Property which may arise or become due during the term of the Lease shall be paid by the County.

Amendments. The Lease may be amended in writing as may be mutually agreed by the Authority and the County, subject to the written approval of the Trustee; *provided*, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Certificates and Additional Certificates Outstanding, and *provided further*, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Lease. So long as the Insurer is not in default under the Municipal Bond Insurance Policy:

(i) the Insurer's consent shall be required for any amendment to the Lease which requires the consent of any owners; and

(ii) the Insurer shall receive written notice, at least thirty days in advance of soliciting consents of Owners, with respect to each amendment of the Lease requiring the consent of Owners.

The Lease and the rights and obligations of the Authority and the County under the Lease may also be amended or supplemented at any time by an amendment of the Lease or supplement to the Lease which shall become binding upon execution without the written consents of any Owners and, so long as the Liquidity Facility is still in effect with respect to any Certificates, the Liquidity Provider is an Owner, or any amount is owed to the Liquidity Provider under the Lease, such Liquidity Provider, but only to the extent permitted by law and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the County to be observed or performed in the Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the County, or to surrender any right or power reserved in the Lease to or conferred in the Lease on the Authority or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease or in regard to questions arising under the Lease which the Authority or the County may deem desirable or necessary and not inconsistent with the Lease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Lease;

(d) to facilitate the issuance of Additional Certificates as provided in the Lease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners or the Insurer.

Discharge of County. Upon the payment all Base Rental Payments, Additional Rental and other rent payable under the Lease, all of the obligations of the County under the Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied; *provided, however*, if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Lease pursuant to the Trust Agreement, then the obligation of the County under the Lease to make Base Rental Payments under the Lease shall continue in full force and effect until the Outstanding Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Authority and the Trustee specified in the Lease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

California Law. The Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

ASSIGNMENT AGREEMENT

The Authority will assign its rights to receive Base Rental Payments from the County under the Lease to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement, the terms of which are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Assignment Agreement.

Assignment. The Authority unconditionally and irrevocably grants, transfers and assigns to the Trustee, without recourse or warranty, (i) all right, title and interest of the Authority as lessee under the Ground Lease; (ii) all rights of the Authority to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Lease for the benefit of the Owners of the Certificates; (iii) all rents, profits and products from the Property to which the Authority has any right or claim whatsoever under the Lease; (iv) the right to take all actions and give all consents under the Lease; (v) the right of access more particularly described in the Lease; and (vi) any and all other rights and remedies of the Authority in the Lease as lessor thereunder for the purpose of (a) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (b) performing and discharging each agreement, covenant and obligation of the County contained in the Lease and in the Trust Agreement.

Acceptance. The Trustee accepts the foregoing assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Conditions. The Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. The Trustee shall not be responsible for the accuracy of the recitals therein. The Trustee is entering into the Assignment Agreement solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not responsible for the duties or obligations of the Authority under the Lease or for any recitals, covenants, representations or warranties of the Authority thereunder.

GROUND LEASE

General. The Ground Lease provides the terms and conditions of the lease of a portion of the Property (the "Ground Lease Property") by MTDB, as lessor, to the Authority, as lessee. Certain provisions of the Ground Lease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Ground Lease.

Property. MTDB leases to the Authority, and the Authority leases from MTDB, on the terms and conditions set forth in the Ground Lease, the Ground Lease Property.

Term. The term of the Ground Lease commenced on the November 3, 1987 and terminates on November 1, 2086. The Authority shall have the option to terminate the Ground Lease on November 1, 2042 and each tenth anniversary thereafter, upon six months' prior written notice to MTDB.

Rent. For each twelve-month period during the term of the Ground Lease beginning November 1, 2001 and ending November 1 in the year in which there are no longer Outstanding any Certificates or Additional Certificates the Authority shall pay MTDB, on the first day of each twelve-month period the sum of $1.

Defaults. The occurrence of any one or more of the following events shall constitute a default under the Ground Lease by the Authority:

(a) The abandonment of the Ground Lease Property by the Authority.

(b) The failure by the Authority to make any payment of rent, additional rent, or other payment required to be made by the Authority under the Ground Lease, as and when due, where such failure shall continue for a period of ten (10) days after written notice thereof from MTDB to the Authority, provided, however, that any such notice shall be in lieu of, and not in addition to any notice required under California Code of Civil Procedure Section 1161, as amended.

(c) The failure by the Authority to observe or perform any of the express covenants or provisions of the Ground Lease to be observed or performed by the Authority, other than as specified in clause (a) and (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from MTDB to the Authority; provided, however, that any such notice shall be In lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161, as amended; provided further, that if the nature of the Authority's default is such that more than thirty (30) days are reasonably required for its cure, then the Authority shall not be deemed to be in default if the Authority shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion.

(d) (i) The making by the Authority of any general assignment for the benefit of creditors; (ii) the filing by or against the Authority of a petition to have the Authority adjudged bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against the Authority, the same is dismissed within ninety (90) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of the Authority's assets located at the Ground Lease Property or of the Authority's interest in the Ground Lease, where possession is not restored within ninety (90) days; (iv) the attachment, execution or other judicial seizure of substantially all of the Authority's assets located at the Ground Lease Property or of the Authority's interest in the Ground Lease, where such seizure is not discharged within ninety (90) days; or (v) the Authority's convening of a meeting of its creditors or any class thereof for the purpose of effecting a moratorium upon or composition of its debts.

Remedies.

(a) In the event of any default by the Authority as defined in the Ground Lease, MTDB shall provide written notice thereof to the Trustee. In the event such default is not cured by the Trustee within thirty (30) days after the date of such notice (or, if due to the nature of the default more than thirty (30) days are reasonably required for its cure, in the event the Trustee does not commence such cure within said thirty (30) day period and thereafter diligently prosecute such case to completion), then MTDB may exercise the following remedies:

(i) Terminate the Authority's right to possession of the Ground Lease Property by any lawful means, in which case the Ground Lease shall terminate and the Authority shall immediately surrender possession of the Ground Lease Property to MTDB. In such event MTDB shall be entitled to recover from the Authority: (A) The worth at the time of award of the unpaid rent and additional rent which had been earned at the time of termination; (B) The worth at the time of award of the amount by which the unpaid rent and additional rent which would have been earned after termination until the time of award exceeds the amount of such loss that the Authority proves could have been reasonably avoided; (C) The worth at the time of award of the amount by which the unpaid rent and additional rent for the balance of the term after the time of award exceeds the amount of such loss that the Authority proves could be reasonably avoided; (D) Any other amount necessary to compensate MTDB for all the detriment proximately caused by the Authority's failure to perform its obligations under the Ground Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Ground Lease Property, expenses of reletting, including necessary repair, renovation and alteration of the Ground Lease Property, reasonable attorneys' fees, and any other reasonable costs; and (E) At MTDB's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

(ii) Without terminating or effecting a forfeiture of the Ground Lease or otherwise relieving the Authority of any obligation thereunder in the absence of express written notice of MTDB's election to do so, MTDB may, but need not, relet the Ground Lease Property or any portion thereof at any time or from time to time for such terms and upon such conditions and rental as MTDB in its sole discretion may deem proper. Whether or not the Ground Lease Property are relet, the Authority shall pay to MTDB all amounts required to be paid by the Authority under the Ground Lease up to the date that MTDB terminates the Authority's right to possession of the Ground Lease Property. Such payments by the Authority shall be due at the times provided in the Ground Lease, and MTDB need not wait until the termination of the Ground Lease to recover them by legal action or in any other manner. If MTDB relets the Ground Lease Property or any portion thereof, such reletting shall not relieve the Authority of any obligation thereunder, except that MTDB shall apply the rent or other proceeds actually collected by it for such reletting against amounts due from the Authority thereunder to the extent such proceeds compensate MTDB for non-performance of any obligation of the Authority thereunder. MTDB may execute any lease made pursuant to the Ground Lease in its own name, and the lessee thereunder shall be under no obligation to see to the application by MTDB of any proceeds to MTDB, nor shall the Authority have any right to collect any such proceeds. MTDB shall not by any re-entry or other act be deemed to have accepted any surrender by the Authority of the Premises or the Authority's interest therein, or be deemed to have terminated the Ground Lease, or to have relieved the Authority of any obligation thereunder, unless MTDB shall have given the Authority express written notice of MTDB's election to do so.

(iii) MTDB may terminate the Ground Lease by express written notice to the Authority of its election to do so. Such termination shall not relieve the Authority of any obligation under the Ground Lease which has accrued prior to the date of such termination. In the event of such termination, MTDB shall be entitled to recover from the Authority the amounts determined pursuant to paragraph (i) above. In the event of a default by reason of an event stated in paragraph (d) under the heading "Defaults" above the Ground Lease and any interest in the Ground Lease Property shall not become an asset in any such proceeding and, in any such event and in addition to all other remedies of MTDB under the Ground Lease or provided by law, MTDB may declare the term of the Ground Lease ended and re-enter the Ground Lease Property and take possession thereof and remove all persons therefrom, and the Authority and its creditors (other than MTDB) shall have no further claim thereon or under the Ground Lease.

(b) MTDB shall be under no obligation to observe or perform any covenant of the Ground Lease on its part to be observed or performed which accrues after the date of any default by the Authority thereunder.

(c) In any action for unlawful detainer commenced by MTDB against the Authority by reason of any default under the Ground Lease, the reasonable rental value of the Ground Lease Property for the period of the unlawful detainer shall be deemed to be the amount of rent and additional rent reserved in the Ground Lease for such period, unless MTDB or the Authority shall prove to the contrary by competent evidence.

(d) The rights and remedies reserved to MTDB in the Ground Lease, including those not specifically described, shall be cumulative, and, except as provided by California statutory law in effect at the time, MTDB may pursue any or all of such rights and remedies, at the same time or otherwise.

(e) No delay or omission of MTDB to exercise any right or remedy shall be construed as a waiver of an such right or remedy or of any default by the Authority under the Ground Lease. The acceptance by MTDB of rent or any additional rent under the Ground Lease shall not be a waiver of any preceding breach or default by the Authority of any provision thereof, other than the failure of the Authority to pay the particular rent or any additional rent accepted, regardless of MTDB's knowledge of such preceding breach or default at the time of acceptance of such rent or any additional rent, or a waiver of MTDB's right to exercise any remedy available to MTDB by virtue of such breach or default. The acceptance of any payment from a debtor in possession, a trustee, a receiver or any other person acting on behalf of the Authority or the Authority's estate shall not waive or cure a default under paragraph (d) under the heading "Defaults" above.

Default by MTDB. MTDB shall not be deemed to be in default in the performance of any obligation required to be performed by it under the Ground Lease unless and until it has failed to perform such obligation within ninety (90) days after written notice by the Authority to MTDB specifying wherein MTDB has failed to perform such obligation; provided, however, that if the nature of MTDB's obligation is such that more than ninety (90) days are required for its performance then MTDB shall not be deemed to be in default if it shall commence such performance within such ninety (90) day period and thereafter diligently prosecute the same to completion.

NONDISTURBANCE AGREEMENT AND AGREEMENT RE: GROUND LEASE (2001 MTS TOWER REFUNDING)

MTDB agrees under the Nondisturbance Agreement that in the event the Trustee obtains possession of the land and facilities covered by the Ground Lease through actions taken under the Lease, MTDB will recognize the Trustee, and one claiming through the Trustee as the rightful occupier of the Ground Lease Property under the Lease and will not withhold consent to such a transfer, provided that the Trustee or new occupying lessee assumes obligations under the Lease and there does not occur thereafter an event of default under the Lease or event which with the passing of time or giving of notice or both would constitute such an event of default. MTDB further acknowledges that performance by the County under the Lease will satisfy performance by the Authority under the Ground Lease. Upon and event of default under the Ground Lease, MTDB will give notice of such event of default to the Trustee and the Insurer and will accept tender and performance from the Trustee and/or the Insurer as if the same were tender and performance by the Authority.

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APPENDIX D

BOOK-ENTRY SYSTEM

General

Purchasers of beneficial ownership interests in the Certificates will not receive certificates representing their interests in the Certificates purchased. The Underwriters will confirm original issuance purchases with statements containing certain terms of the Certificates purchased.

The following information concerning DTC and DTCs book-entry system has been obtained from sources the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The Certificates will be held by DTC as securities depository. The ownership of one fully registered Certificate for each maturity of Certificates, each in the aggregate principal amount of such maturity, is registered in the name of Cede & Co., as nominee for DTC. DTC, an automated clearinghouse for securities transactions, will act as securities depository for the Certificates. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Certificates may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the Certificates as nominees will not receive certificated Certificates, but each such DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the Certificates, which will be confirmed in accordance with DTC's standard procedures. Each such person for whom a DTC Participant acquires an interest in the Certificates, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have notices of prepayment, or all other communications of the County to DTC which may affect such persons, forwarded in writing by such DTC Participant and to have notifications made of all payments of principal of or interest on his beneficial interest. NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE CERTIFICATES IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR PREPAYMENT PRICE OF OR INTEREST REPRESENTED BY THE CERTIFICATES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO CERTIFICATE HOLDERS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL PREPAYMENT OF THE CERTIFICATES; OR ANY OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

The County and the Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Certificates registered in its name for the purposes of payment of the principal or interest represented by the Certificates, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Certificates, or other action to be taken by registered owners and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Interest and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants or the Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE CERTIFICATES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES.

Discontinuance of DTC Services

In the event (i) DTC, including any successor as securities depository for the Certificates, determines not to continue to act as securities depository for the Certificates; (ii) DTC shall no longer so act and gives notice to the Trustee of such determination, DTC services will be discontinued. If the County determines to replace DTC with another qualified securities depository, the County shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each of the maturities of the Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository, or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository as are not inconsistent with the terms of the Trust Agreement. If the County fails to identify another qualified securities depository to replace DTC then the Certificates shall no longer be restricted to being registered in the Certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the County, in accordance with the Trust Agreement.

APPENDIX E

FORM OF LEGAL OPINION

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APPENDIX E

FORM OF LEGAL OPINION

Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, proposes to issue its final opinion in substantially the following form:

[Date of Issuance]

County of San Diego
1600 Pacific Highway
San Diego, California 92101

$36,960,000
County of San Diego Certificates of Participation (2001 MTS Tower Refunding)
(Final Opinion)

Ladies and Gentlemen:

We have acted as Special Counsel in connection with the execution and delivery of $36,960,000 aggregate principal amount of County of San Diego Certificates of Participation (2001 MTS Tower Refunding) (the "Certificates"). In such connection, we have reviewed a Lease, dated as of September 1, 2001 (the "Lease"), between the County of San Diego (the "County") and the San Diego Regional Building Authority (the "Authority"), a Trust Agreement, dated as of September 1, 2001 (the "Trust Agreement"), among State Street Bank and Trust Company of California (the "Trustee"), the County and the Authority, an Assignment Agreement, dated as of September 1, 2001 (the "Assignment Agreement"), between the Authority and the Trustee, a Tax Certificate of the County, dated as of the date hereof (the "Tax Certificate") and opinions of counsel to the County, the Authority and the Trustee, certificates of the County, the Authority, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Certain agreements, requirements and procedures contained or referred to in the Lease, the Trust Agreement, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest components of any Base Rental Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease, the Trust Agreement, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of Base Rental Payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Lease, the Trust Agreement, the Assignment Agreement, the Tax Certificate, the Certificates and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Lease, the Trust Agreement, or the Assignment Agreement or the accuracy or sufficiency of the description of any such property contained therein of, or scope of remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Lease and the Trust Agreement have been duly executed and delivered by the County and constitute valid and binding obligations of the County.

2. The obligation of the County to make the Base Rental Payments during the term of the Lease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor and does not constitute a debt of the County or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State of California is obligated to levy or pledge any form of taxation or for which the County or the State of California has levied or pledged any form of taxation.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The portion of each Base Rental Payment designated as and constituting interest paid by the County under the Sublease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX F

SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J Genader

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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